



Punjab Skills Development Fund

Audit Risk and Compliance Department Charter

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1. Purpose

- 1.1 The Audit, Risk & Compliance charter is a formal document that defines the Audit, Risk and Compliance Department's (ARC Department) purpose, authority and responsibility. The ARC Department Charter establishes the ARC Department's position within the organization; authorizes access to records, personnel and physical assets, relevant to the performance of engagements; and defines its responsibilities.
- 1.2 This charter has been developed in accordance with applicable laws and regulations including the Public Sector Companies (Corporate Governance) Rules, 2013 (PSC Rules) and demonstrates that the Fund is adhering with the requirements of all relevant laws and regulations. It is based upon the Institute of Internal Auditors (IIA) mandatory guidance which includes a definition of Internal Auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing as required by law. In case of any conflict between the PSC Rules and this charter, the PSC Rules shall supersede the provisions to the extent of the conflict.
- 1.3 The ARC Department is established by the Board, and its responsibilities are defined by the Board as part of its oversight role. The final approval of the ARC Department charter resides with the Board of Directors (the Board) at the recommendations of the Board Audit and Finance Committee (BAFC). The Fund's management recognizes the rights of the ARC Department to carry out its responsibilities in accordance with the present ARC Department charter and any audit activity approved by the BAFC.

2. Mission

The mission of the ARC Department is:

- 2.1 to provide independent, objective assurance and advisory services designed to add value through a systematic and disciplined approach by advising management in controlling risks, monitoring compliance, improving the efficiency and effectiveness of internal control systems and governance processes;
- 2.2 to enhance and protect the organizational value of the Fund by providing risk-based assurance, advice, and insight.

3. Objective

- 3.1 The ARC Department is an independent appraisal function established by the Board through the BAFC to evaluate the adequacy and effectiveness of controls, systems and procedures, within the Fund, in order to reduce business risks to an acceptable level in a cost-effective manner.
- 3.2 The objective is to examine and evaluate whether the Fund's framework of Risk Management, Control and Governance Process is adequate and functioning in a manner to ensure that:
 - Risks are appropriately identified and managed at both entity and transactional level.
 - Financial, managerial, and operating information is accurate, reliable, and timely.

- Policies, standards, procedures, and applicable laws and regulations are complied with.
- Systems ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports.
- Assets of the Fund are adequately safeguarded.
- Quality and continuous improvement are incorporated into control processes.

4. Scope of Audit, Risk and Compliance Department

- 4.1 The audit scope will be based on risk assessment made under the Enterprise Wide Risk Management (ERM) Framework. ARC Department shall focus on high-risk areas and review of risk management procedures, internal control systems, information systems and governance processes.
- 4.2 ARC Department's work also involves periodic testing of transactions, best practice reviews, performance of due diligence for acquisitions and other special investigations, appraisals of regulatory requirements, measures to help prevent and detect errors, omissions and fraud as per audit plan approved by the BAFC and to perform activities that comes under the authority of ARC department.
- 4.3 The Head of ARC department shall be responsible for promoting the development of an effective ARC Department.

5. Authority

- 5.1 The Fund authorizes the ARC department, subject to any legal restrictions flowing from any contract or under any law, within the scope of its responsibilities, to:
 - have full and unrestricted access to all functions, records, property and personnel;
 - have full and unrestricted access to the Chairman of the Board, the Board of Directors, and the BAF Committee;
 - allocate resources, set frequencies, select subjects, determine scopes of work and apply the techniques required to accomplish audit objectives;
 - have discussions with line managers and employees of the Company and obtain necessary information and documentation from them at any reasonable time, with very strict and absolute accountability for safekeeping and confidentiality of information obtained, whilst carrying out the ARC Department's work;
 - specific sensitive and highly confidential matters shall, however, be handled by the head of ARC Department or his/her appointed nominee.
 - have unrestricted access to Management Information System (MIS) and allied systems of the Fund;
 - perform surprise/snap/full scope audits beyond approved annual audit plan based on updates in risk assessment;
 - obtain the necessary assistance of staff in the Fund's units where they perform audits, as well as other specialized services from within or outside the Fund;
 - obtain external legal or other professional advice, subject to the appropriate delegations.

- 5.2 The Head of ARC Department and staff of the ARC Department are not authorized to:
- perform any operational duties/management function for the Fund or its affiliates, except as otherwise approved by the BAFC;
 - initiate or approve financial or non-financial transactions except those pertaining to the ARC Department;
 - direct the activities of any employee not employed by the ARC Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the ARC Department staff.
- 5.3 Any exception to the above rules must be approved by BAF Committee. All employees are asked to assist the ARC Department in fulfilling its role. Documents and information given to the ARC Department during a review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.
- 5.4 If the ARC Department is not able to obtain the necessary assistance of personnel of the Fund where an audit is being performed, the matter shall be escalated to the CEO for resolution failing which the matter shall be referred to BAFC within 3 days. Furthermore, if ARC Department cannot reach an agreement with the CEO, regarding the acceptance of significant issues or management action plans, the matter shall be escalated to the BAFC.

6. Roles & Responsibilities:

6.1 Head of the ARC Department

Subject to the overall guidelines of the BAF Committee and the ARC Department charter, the Head of the ARC Department shall be responsible for the planning, implementation and reporting of the internal audits. Head of the ARC Department shall perform various activities which shall include but shall not be restricted to the following:

- preparing a long-term strategic plan for 3 years to set the direction of and approach to internal audits;
- preparing a detailed annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the B ARC Department for review and approval;
- updating and implementing the annual audit plan with the approved special tasks or projects requested by BAF Committee and senior management (with the approval of BAF Committee);
- carrying out all the activities to conduct audits in an effective, professional and timely manner;
- assessing and recruiting the necessary personnel for the ARC Department appropriate remuneration rates for the Fund's to ensure fulfilment of the annual and long-term strategic plan;

- reviewing the systems established to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the organization is in compliance at a reasonable cost;
- reviewing operations or programs to ascertain whether results are consistent with established strategic objectives and goals and whether the operations or programs are being carried out as planned;
- monitoring the ethical culture of the organization, including the tone set by senior management as well as the competitive arena and the culture of the business;
- maintaining professional staff with sufficient knowledge, skill, experience and professional certification to meet the requirements of the ARC Department Charter; evaluating and ascertaining that internal controls systems including financial and operational controls, accounting system and reporting structures are adequate and effective;
- evaluating the effectiveness of controls over the relevance, reliability and integrity of information for management purposes, with emphasis on financial information and the means used to identify, measure, classify, and report such information;
- evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization including assessment of the level of compliance with policies, plans, procedures, laws and regulations;
- evaluating and assessing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- monitoring compliance and evaluation of governance processes with best practices of corporate governance as well as reporting of significant violations of corporate governance and regulatory matters;
- monitoring and evaluating the effectiveness of the organization's risk management processes;
- performing and providing advisory services related to governance, risk management and control as appropriate for the organization;
- appraising the economy and efficiency with which resources are employed and protected;
- reviewing operations to ascertain whether established objectives and goals are achieved as planned;
- aiding management in identifying business risks and assessing the adequacy of the risk management processes;
- reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters requested by BAF Committee.
- annually conduct independent AML/CFT regulatory compliance audits and reviews as per its management plan under the ERM framework and as explained in Fund's Anti money laundering and counter financing terrorism policy. The report of ARC Department should be sent to BAF Committee and presented to the Board on quarterly basis;
- following-up on agreed internal and external audit recommendations to make sure that effective remedial action is taken;

- carrying out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by the BAF Committee/the Board or by the CEO (with approval of BAF Committee);
- establishing and maintaining a quality assurance and improvement program by which the operation of Department's activities is assured; such as ongoing monitoring of the performance of the internal audit activity and external assessments that are conducted at least once every five years by qualified, independent assessors and discussing annually the results of such program in order to assure effective operations of the internal audit activities.
- evaluating specific operations at the request of the Board, BAF Committee or the CEO (with approval of the BAF Committee), as appropriate;
- keep the BAF Committee educated on emerging trends and successful practices in the ARC Department; and
- review the reports of internal audit consultants to whom the department's work has been outsourced and to present final reports to the BAFC,

6.2 Management Responsibility

- Although the role of the ARC Department is to review internal controls, systems, procedures, risks etc., the management and ultimately the Board shall have full responsibility for ensuring that the Fund maintains an appropriate framework of controls to reduce business risks to an acceptable level.
- The management shall also have responsibility and accountability for addressing weaknesses and inefficiencies, which have been identified in both External and Internal Audit Reports, and for taking the necessary corrective action.
- Other management responsibilities shall include immediate notifications to the Head of the ARC Department of any significant internal control problems, thefts, frauds, defalcations, unauthorized transactions, accounting breakdowns, major bad debts etc. Significant matters shall be reported in the BAF Committee meetings.

7. Independence and objectivity

- 7.1 The ARC Department has no direct authority or responsibility for the activities it reviews for the Fund. It functions solely in a review and advisory role. To provide for the independence and effective operation of the ARC department, its personnel report to the Head of ARC department, who in turn, reports functionally to the BAF Committee and administratively to the Chief Executive Officer (CEO).
- 7.2 All department's activities shall remain free of influence by any element in the Fund, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.
- 7.3 Staff of the ARC department will not assume responsibility for the design, implementation, operation or control of any procedures within the organization, except those for the ARC Department itself. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may

impair their judgment. In no circumstances can the ARC department act as the custodian of any of the processes it audits.

- 7.4 The primary responsibility for financial and other reporting of controls over and compliance with legislation, regulations and ethics rests with executive management.
- 7.5 If an impairment of the ARC department's independence or objectivity in fact or appearance occurs, the Head of the ARC Department will disclose this to the appropriate parties. The Head of ARC Department shall be accountable to the BAF Committee and shall have full access to the BAF Committee and at least once a year, he/she should review and evaluate the relevance of the ARC Department Charter and, when necessary, make appropriate changes with the approval of the BAF Committee.

8. Professionalism

- 8.1 The internal audit profession is covered by the International Professional Practices Framework of The Institute of Internal Auditors. This framework includes mandatory elements consisting of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. The ARC Department will meet or exceed these mandatory requirements of the profession.
- 8.2 The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be considered to guide operations. In addition, Internal Audit will adhere to relevant Fund policies and procedures and The ARC department's standard operating procedures manual.
- 8.3 The ARC department is expected to comply with the Fund's Code of Conduct, and with the Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors.
- 8.4 ARC department and internal auditors are expected to apply and uphold the following principles:

8.4.1 Integrity

The integrity of ARC department and internal auditors should establish trust and thus provide the basis for reliance on their judgment.

Internal auditors:

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Shall respect and contribute to the legitimate and ethical objectives of the Organization.

8.4.2 Objectivity

Internal auditors, and the ARC department, should exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors should make a balanced

assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- Shall not accept anything that may impair or be presumed to impair their professional judgment.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

8.4.3 Confidentiality

ARC department and the Internal auditors should respect the value and ownership of information they receive and should not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

8.4.4 Competency

Internal auditors should apply the knowledge, skills, and experience needed in the performance of internal audit services.

Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

9. Qualification

9.1 Head of ARC Department

No person shall be appointed to the position of the Head of ARC department unless he/she is considered and approved as “fit and proper”, as defined under PSC rules, 2013, for the position by the BAF Committee. No person shall be appointed as the Head of ARC department of the Company unless he has five (5) years of relevant audit experience and qualification criteria as defined in the PSC Rules, 2013.

9.2 Individual internal auditors

Individual internal auditors are required to:

- comply with principals as stated under the Charter;
- possess the knowledge, skills, and technical proficiency essential to the performance of internal audits;

- be skilled in dealing with people and in communicating audit issues effectively;
- maintain their technical competence through a program of continuing education;
- exercise due professional care in performing internal audits.

10. Quality Assurance & Improvement Program

The ARC department will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the activities of ARC Department conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The Head of ARC Department will communicate to CEO for feedback only, BAF Committee and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five (5) years.

11. Reporting and monitoring

11.1 Following will be the mechanism for reporting:

- each audit assignment as per the annual audit plan or otherwise shall be followed by a written quarterly (however reporting can be done annually on reservation/instruction of BAFC) internal audit report duly signed by the Head of ARC Department which at a minimum shall contain executive summary, scope and objectives of work, details of findings, business impact and recommendations with risk profile;
- the reports shall be based on adequate working papers;
- the internal audit report shall also include management's response and corrective actions taken or to be taken regarding the specific findings and recommendations. The management's response should include person responsible along with implementation timelines for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- the ARC Department shall also quarterly follow-up on the implementation of its recommendations in the form of a status report;
- the ARC department shall timely escalate significant audit/review findings to BAFC and management if unresolved at levels of those responsible;
- the Head of ARC Department shall also quarterly report to the BAF Committee on ARC Department's progress and performance relative to its plan; and
- if requested by management and approved by the BAF Committee, the ARC Department may provide control-focused advisory services on control self-assessment (CSA), emerging risks, fraud prevention, future projections, policies and procedures, risk-based trainings, controls implementation and change management.

12. Liaison with External Auditors

- 12.1 The Fund's ARC Department shall co-ordinate its activities with those of the external auditors as per requirements of statutory requirements including PSC Rules 2013 in order to obtain maximum assurance and to avoid duplication of audit effort. For the said purpose, ARC Department shall provide its internal audit reports to the external auditors
- 12.2 The ARC department shall carry out follow-ups on comments and recommendations contained in the External Audit reports.

13. Fraud limitations

- 13.1 While it is the management's responsibility to design and implement programs and controls to prevent, deter and detect fraud, the Internal Audit staff should have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization. They are, however, not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

13.2 Fraud deterrence program

The ARC department shall assist the management in designing programs for deterrence of frauds. These programs include, but are not restricted to the following:

- setting up of a Whistleblowing function in accordance with whistleblowing policy of the Fund. The Whistleblowing Program refers to the deliberate, voluntary disclosure of individual or organizational impropriety by a person who has or had privileged access to data, events or information about an actual, suspected or anticipated wrongdoing within or by an organization that is within its ability to control;
- identifying, reporting, investigating and mitigating the instances of fraud and corruption and discharge its responsibilities in accordance with the Fund's Anti-corruption, fraud and bribery policy
- assisting the management in identification of internal control deficiencies and suggesting measures for removal thereof;
- commenting on the design effectiveness of the controls to be implemented by the management;
- assisting the management in ensuring strict compliance with respect to recommendations to overcome the weaknesses identified in the reports of the Internal & External Audits.
- Employees are encouraged to report the acts involving fraudulent activities to the ARC Department.

14. Review of the Audit, Risk & Compliance Charter

This charter will be reviewed at least after three (3) years or as and when required by the BAF Committee. Any substantive changes will be formally approved by the Board on the recommendations of the BAF Committee.