

## **Internal Audit Charter**

### **Hong Kong Productivity Council and Its Subsidiaries (HKPC)**

This Charter defines the mission, objectives, scope of work, authority and accountability of the Compliance and Internal Audit Office (CIA) of HKPC.

#### **Mission**

1. CIA's mission is to assist the Audit Committee and management of HKPC in safeguarding its assets and reputation, securing the accuracy and reliability of its records and promoting operational efficiency by independently evaluation of the effectiveness of compliance, internal controls, risk management and governance process.

#### **Objectives**

2. CIA is an integral part of HKPC's Corporate Governance framework. The principal objectives are to provide an independent appraisal of the processes and systems in ensuring the following:
  - Adequacy and effectiveness of internal controls
  - Effectiveness and efficiency of operations
  - Safeguarding of HKPC's assets and its reputation
  - Compliance with established policies, procedures and applicable ordinance and regulations
  - Reliability and timeliness of financial and management reporting systems
3. In addition, CIA can assist the Audit Committee with its responsibilities of strengthening the risk management and internal control framework and advise management on how to improve the processes by which risks are identified and managed.

#### **Reporting and Independence**

4. The Chief Compliance Officer (CCO) is responsible for managing the CIA. CCO reports functionally to the Audit Committee and administratively to the Executive Director.

5. It is important for CIA to maintain an objective and independent position within HKPC. Other than playing an advisory role, the CIA shall not be involved in management of the operations or functions of other divisions.
6. The reporting relationships and the assigned roles ensure functional independence and assure adequate consideration of audit issues.

### **Scope of work**

7. CIA will apprise the Audit Committee and management of the adequacy and effectiveness of the systems of internal controls, and the efficiency and effectiveness of the operations. An annual audit plan is prepared each year employing a risk based audit methodology to determine the areas to be audited. The plan and any subsequent changes have to be approved by the Audit Committee before taking effect.
8. CIA is responsible for implementing the approved audit plan to assess whether the processes, procedures and systems of internal control within HKPC are adequate, reliable and effective.
9. The major types of assignments include but are not necessarily limited to the following:
  - Operation reviews of key processes and systems addressing effectiveness, efficiency and economy of operations
  - Compliance audits to assess compliance with policies, procedures, applicable ordinance and regulations
  - Follow up reviews on major issues ensuring timely implementation of corrective actions
  - Project audits on large scale projects such as pre-implementation and post implementation reviews on new installation of critical IT systems
  - Ad hoc assignments (such as investigations of suspected fraud and irregularities) as requested by the Audit Committee and the Executive Director
  - Facilitation of risk management and internal control self-assessments by the divisions and reviews of the results for the preparation of the Corporate Governance report
  - Advisory on compliance issues and internal control enhancements without assuming management responsibility
  - Driving implementation of HKPC's Anti-Corruption Programme
10. Besides conducting internal audit assignments, CIA also liaise with the external auditor to ensure adequate audit coverage and avoid unnecessary duplication of efforts.

### **Authority**

11. Staff members of CIA are authorised to have unrestricted access to all functions, records, documentation, assets, systems, personnel and premises of HKPC as when necessary for the proper conduct of all audits and reviews. They shall apply the same standard of safekeeping and confidentiality to the information as those in use by their custodians. All HKPC's employees shall make themselves available for audit exercises and cooperate fully in making available any material or information requested by CIA.

### **Accountability**

12. The Audit Committee, as delegated by the Council, shall oversee the resources sufficiency and proper operation of CIA. CIA will provide regular reporting to the Executive Director and the Audit Committee on the implementation status of the annual audit plan and key audit observations and recommendations for completed assignments. Management is responsible for taking appropriate and timely actions to resolve control and efficiency issues and report back to CIA on a regular basis. CIA is responsible for following up the status of implementation of corrective actions of the issues in the next audit review with spot checking in the interim period to ensure proper resolution of the issues identified.

### **Responsibilities of management**

13. The internal audit reviews in various areas of the operation do not in any way relieve the management and their staff of their responsibilities to design, implement and operate systems of internal controls and ensure the effectiveness, efficiency and economy of the operation. Further, all staff of HKPC are encouraged to bring to the attention of the CIA any suspected situation involving improper activity or non-compliance with applicable ordinance, regulations, policies, plans and procedures of which they have knowledge.

### **Standards of Internal Audit Practice**

14. All internal audit assignments must be undertaken with due professional care. CIA is expected to meet or exceed the relevant standards and guidelines as laid down by the Institute of Internal Auditors and the Hong Kong Institute of Certified Public Accountants.

**Amendment to Charter**

15. Any changes to this charter shall be approved by the Audit Committee before taking effect.