

LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2017

These Regulations (COCG) shall apply to listed companies and to all other entities where the statutes and underlying licensing requirements requires such entities to comply with these Regulations.

The Board of Directors is a combination of natural persons who act as agents of the members to run the company in a fiduciary relationship. COCG requires a listed company to have a combination of Executive, Non-Executive and Independent Directors on its board. Chairman of the board should be separate from CEO and at least one female member should be part of Board.

To understand the practical implications of COCG, let's take an example of a Listed Company "Marvel Company Limited (MCL)". The composition of the Board of Directors of MCL is below, let's see how this company is compliant with the requirements of COCG.

BOARD OF DIRECTORS OF "MARVEL COMPANY LIMITED"

Ms. Fatima
Non-Executive
Director

Ms. Nida
Independent
Director

Ms. Sara
Chairman of Audit
Committee
Independent
Director

Mr. Babar
Chairman of
Board and Non-
Executive Director

Mr. Ali
CEO and Executive
Director

Mr. Khalid
Executive Director

Ms. Hina
Non-Executive
Director



- *As per Companies Act 2017, a listed company must have 7 directors. MCL has 7 directors.*
- *As per COCG, a listed company should have 2 independent directors and Chairman of Audit Committee should also be an independent directors. MCL has 2 independent directors Ms. Sara and Ms. Nida. Ms. Sara is also the Chairman of Audit Committee.*
- *As per COCG, a listed company should have at least 1 female director. MCL has 4 female directors.*
- *As per COCG, executive directors a listed company should not be more than 1/3rd of total directors and CEO is also executive director. MCL has two executive directors and Mr. Ali is also CEO of MCL.*
- *As per COCG, Chairman and the chief executive officer of a company shall not be the same person and Chairman will be from Non-Executive Directors. MCL is compliant with this.*

- *As per COCG, Chairman of BOD of MCL Mr. Babar, at the beginning of term of directors, will issue letter to directors setting out their role, obligations, powers and responsibilities.*
- *The Audit Committee will be one of BOD's committees and will have at least 3 members who are Non-Executive Directors and 1 independent director who will also be Chairman of Audit Committee not being Chairman of BOD. All three Non-Executive Directors of MCL will be members of Audit Committee and Ms. Sara being the independent director will be the Chairman to Audit Committee.*
- *Board will also have other committees as well, like HR Committee, Nomination Committee and Risk Management Committee.*
- *Other key executives of MCL will be CFO, Secretary and Head of Internal Audit.*

NUMBER OF DIRECTORSHIP AND COMPOSITION OF BOARD

NUMBER OF DIRECTORSHIP (Regulation-3):

The maximum number of listed companies in which a person can hold office of a director simultaneously is five. However, while calculating this limit, the directorship in the listed subsidiaries of a listed holding company shall be excluded.

A person to whom the above rule shall apply can be a director of the listed company by any of the following reasons:

- Elected Director
- Nominated Director
- Alternate Director

DIVERSITY IN BOARD (Regulation-4): The board of directors shall comprises of members having the core competencies, diversity, requisite skills, knowledge, experience and fulfils any other criteria relevant in the context of the company's operations.

REPRESENTATION OF MINORITY SHAREHOLDERS (Regulation-5):

The minority members as a class shall be facilitated to contest election of directors by proxy solicitation and for which purpose the listed companies shall:

1. Annex a statement by a candidate from among the minority shareholders who seeks to contest election with the notice of meeting sent to members showing the intention by the minority shareholder to offer himself for election of director;
2. provide information regarding members and shareholding structure to the candidate(s); and
3. on a request by the candidate(s) and at the cost of the company, annex to the notice of meeting an additional copy of proxy form duly filled in by such candidate(s).

INDEPENDENT DIRECTOR (Regulation-6):

The independent directors of each listed company shall be higher of:

- Not less than 2 members of board; or
- 1/3rd of total members of the board.

Every independent director shall submit with his consent to act as director, a declaration to the company that he qualifies the criteria of independence notified under the Companies Act, 2017. Every independent director shall give such declaration to chairman of board at first meeting in every financial year as well as on an event of any change affecting his independence.

FEMALE DIRECTOR (Regulation-7): The board of directors shall have at least one female director.

EXECUTIVE DIRECTOR (Regulation-8): The executive directors, including the chief executive officer, shall not be more than one third of its board of directors. (*Executive director means a director who devotes the whole or substantially the whole of his time (whether paid or not) to the operations of the company.*)

CHAIRMAN OF BOARD (Regulation-9): The Chairman and the chief executive officer of a company shall not be the same person. The chairman shall be elected from among the non-executive directors.

RESPONSIBILITIES OF BOARD OF DIRECTORS AND ITS MEMBERS (Regulation-10)

FIDUCIARY RELATIONSHIP: The board of directors of a company shall carry out its fiduciary duties with a sense of objective judgment and in good faith in the best interests of the company and its stakeholders.

RISK MANAGEMENT FUNCTION: The board of directors is responsible for the governance of risk and for determining the company's level of risk tolerance by establishing risk management policies. The board shall undertake at least annually, an overall review of business risks to ensure that the management maintains a sound system of risk identification, risk management and related systemic and internal controls to safeguard assets, resources, reputation and interest of the company and shareholders.

ENSURE GOOD CORPORATE GOVERNANCE: The board of directors of a company shall ensure that:

- a) a vision and/or mission statement and overall corporate strategy for the company is prepared, adopted and reviewed as and when deemed appropriate by the board.
- b) a formal code of conduct is in place that promotes ethical culture in the company and prevents conflict of interest in their capacity as member of the board, senior management and other employees. The board shall take appropriate steps to disseminate code of conduct throughout the company along with supporting policies and procedures and these shall be put on the company's website;
- c) adequate systems and controls are in place for identification and redressal of grievances arising from unethical practices;
- d) a system of sound internal control is established, which is effectively implemented and maintained at all levels within the company;
- e) a formal and effective mechanism is put in place for an annual evaluation of the board's own performance, members of board and of its committees;
- f) the board of directors shall define the level of materiality, keeping in view the specific circumstances of the company and the recommendations of any technical or executive sub-committee of the board that may be set up for the purpose;
- g) the decisions on the following material transactions or significant matters are documented by

a resolution passed at a meeting of the board:

- I. investment and disinvestment of funds where the maturity period of such investments is six months or more, except in the case of banking companies, non-banking finance companies and insurance companies
- II. determination of the nature of loans and advances made by the company and fixing a monetary limit thereof, except for banking companies.

SIGNIFICANT POLICIES: The board of directors shall maintain a complete record of particulars of the significant policies along with their date of approval or updating. The significant policies may include but are not limited to the following:

- a) governance of risks and internal control measures
- b) human resource management including preparation of a succession plan
- c) permissible fee for non-executive directors including independent directors
- d) procurement of goods and services
- e) communication policy and investors'/shareholders' relations
- f) marketing
- g) determination of terms of credit and discount to customers
- h) write-off of bad/doubtful debts, advances and receivables
- i) sale and lease of assets, undertaking, capital expenditure, planning and control
- j) investments and disinvestment of funds
- k) debt coverage
- l) determination and delegation of financial powers
- m) transactions or contracts with associated companies and related parties
- n) environmental, social and governance (ESG) including health and safety aspects in business strategies that promote sustainability. This includes but is not limited to corporate social responsibility (CSR) initiatives and other philanthropic activities, donations / contributions to charities and other social causes; and
- o) whistle blowing policy, by establishing a mechanism to receive, handle complaints in a fair and transparent manner while providing protection to the complainant against victimization.

LETTER BY CHAIRMAN TO DIRECTORS: The Chairman of the Board shall, at the beginning of term of each directors, issue letter to directors setting out their role, obligations, powers and responsibilities in accordance with the Companies Act 2017 and company's Articles of Association, their remuneration and entitlement.

ATTENDANCE: All directors of a company shall attend its general meeting(s), (ordinary and extraordinary) unless precluded from doing so due to any reasonable cause.

MEETING OF BOARD

AGENDA AND DISCUSSION IN MEETINGS (Regulation-11): The chairman shall set the agenda of the meeting of the board and ensure that reasonable time is available for discussion of the same. All written notices and relevant material, including the agenda, of meetings shall be circulated at least seven days prior to the meetings, except in the case of emergency meetings, where the notice period may be reduced or waived.

MINUTES OF MEETING (Regulation-12):

The chairman shall ensure that the minutes of meetings of the board of directors are kept in properly maintained books at the registered office in physical form for 20 years and permanently in electronic form.

Where a director of a company is of the view that his dissenting note has not been satisfactorily recorded in the minutes of a meeting, the matter may be referred to the company secretary (secretary of the board as well) for appending such note to the minutes. If the company secretary fails to do so, the director may file an objection with the Commission in the form of a statement to that effect within 30 days of the date of confirmation of the minutes of the meeting.

ATTENDANCE AT MEETING (Regulation-13):

The chief financial officer and company secretary of a company or in their absence, the nominee, appointed by the board, shall attend all meetings of the board of directors.

The chief financial officer and company secretary shall not attend such part of board meeting wherein agenda item relates to consideration of their performance or terms and conditions of their service or when, in the opinion of the board, their presence in the meeting on any agenda item is likely or may tend to impair the organizational discipline and harmony of the company.

ISSUES TO BE PLACED FOR DECISION OF BOARD OF DIRECTORS

SIGNIFICANT ISSUES (Regulation-14):

The chief executive officer of the company shall place significant issues for the information, consideration and decision of the board of directors or its committees that include but are not limited to the following:

- 1) As soon as chief executive officer foresees risk of default concerning obligations on any loans (including penalties and other dues to a creditor, bank or financial institution or default in payment of public deposit), TFCs, Sukuk or any other debt instrument, the same shall be brought to the attention of board;
- 2) annual business plan, cash flow projections, forecasts and strategic plan;
- 3) budgets including capital, manpower and overhead budgets, along with variance analysis;
- 4) matters recommended and/or reported by the audit committee and other committees of the board;
- 5) quarterly operating results of the company as a whole and in terms of its operating divisions or business segments;
- 6) internal audit reports, including cases of fraud, bribery, corruption, or irregularities of material nature;
- 7) management letter issued by the external auditors;
- 8) details of joint venture or collaboration agreements or agreements with distributors, agents etc.;
- 9) promulgation of or amendment to a law, rule or regulation, applicability of financial reporting standard and such other matters as may affect the company and the status of compliance therewith;
- 10) status and implications of any law suit or proceedings (show cause notice, demand or prosecution notice) of material nature, filed by or against the company;

- 11) failure to recover material amounts of loans, advances, and deposits made by the company, including trade debts and inter corporate finance;
- 12) any significant accidents, fatalities, dangerous occurrences and instances of pollution and environmental problems involving the company;
- 13) significant public or product liability claims made or likely to be made against the company, including any adverse judgment or order made on the conduct of the company or of another company that may bear negatively on the company;
- 14) report on governance, risk management and compliance issues. Risks to be considered shall include reputational risk and shall address risk analysis, risk management and risk communication;
- 15) disputes with labor and their proposed solutions, any agreement with the labor union or collective bargaining agent and any charter of demands on the company;
- 16) reports on /synopsis of issues and information pursued under the whistle blowing policy, clearly disclosing how such matters were dealt with and finally resolved or concluded;
- 17) implementation of environmental, social and governmental and health and safety business practices including report on corporate social responsibility activities and status of adoption/compliance of corporate social responsibility (Voluntary) Guidelines 2013 or any other regulatory framework as applicable;
- 18) payment for goodwill, brand equity or intellectual property;
- 19) sale of assets, investments and interest in subsidiaries and undertakings, of material amount or significant nature, which is not in the ordinary course of business; and
- 20) quarterly details of foreign exchange exposures and the safeguards taken by management against adverse exchange rate movement, if material.

RELATED PARTY TRANSACTIONS (Regulation-15):

The details of all related party transactions shall be placed periodically before the Audit Committee of the company and upon recommendations of the audit committee the same shall be placed before the board for review and approval.

If majority of the directors are interested in such transactions, the matter shall be placed before the general meeting for approval.

The related party transactions, not executed at arm's length price, shall also be placed separately at each board meeting along with necessary justification on recommendation of the Audit Committee of the company.

CONFLICT OF INTEREST (Regulation-16): If any director has a conflict of interest on an agenda item placed for consideration and decision of Board, the quorum shall only be considered to be present if at least two independent directors are present at such meeting in person or through video link when such matter comes up for the first time for consideration of the board.

REMUNERATION OF DIRECTORS

FORMAL POLICY (Regulation-17): The board of directors shall have in place a formal policy and transparent procedure for fixing the remuneration packages of individual directors for attending meetings of the board and its committees.

DETERMINATION OF REMUNERATION (Regulation-18):

No director shall determine his own remuneration. Levels of remuneration shall be appropriate and commensurate with the level of responsibility and expertise, to attract and retain directors needed to govern the company successfully and to encourage value addition. However, it shall not be at a level that could be perceived to compromise their independence.

The process adopted for determination of director's remuneration shall comply with the provisions of the Companies Act 2017 and the Company's articles of association:

If the company's articles of association authorizes the board to determine director's remuneration, an independent consultant may be engaged to recommend an appropriate level of remuneration for consideration and approval of the board.

DIRECTORS TRAINING PROGRAM

DIRECTORS' ORIENTATION PROGRAM (Regulation-19): All companies shall make appropriate arrangements to carry out orientation courses for their directors to acquaint them with COCG, applicable laws, their duties and responsibilities to enable them to effectively govern the affairs of the listed company for and on behalf of shareholders.

DIRECTORS' TRAINING (Regulation-20):

It shall be mandatory for all companies to ensure that:

- by June 30, 2019, at least half of the directors on their boards;
- by June 30, 2020, at least 75% of the directors on their boards; and
- by June 30, 2021, all the directors on their boards

have acquired the certification under any director training program offered by institutions, local or foreign, that meet the criteria specified by the Commission and approved by it.

A newly appointed director (not exempted or already in possession of certification) on the board shall acquire the directors training program certification within a period of one year from the date of appointment as a director on the board.

Director having a minimum of 14 years of education and 15 years of experience on the board of a listed company, local and/or foreign, shall be exempt from the directors training program. The Commission shall grant exemption to such directors keeping in view the relevancy of qualification and experience of directors.

It shall be mandatory for every company to arrange training for:

- a) atleast one female executive every year under the Directors' Training program from the year starting June 30, 2019
- b) atleast one head of department every year under the Directors' Training program from the year starting June 30, 2021.

CHIEF FINANCIAL OFFICER, COMPANY SECRETARY AND HEAD OF INTERNAL AUDIT

APPROVAL (Regulation-21): The board of directors shall determine appointment, remuneration,

terms and conditions of employment of chief financial officer, company secretary and head of internal audit of companies.

REMOVAL (Regulation-22): The removal (including non-renewal of contract) of the chief financial officer, company secretary and head of internal audit of a company shall be made with the approval of the board of directors. Furthermore, the head of internal audit may be removed upon recommendation of the audit committee.

QUALIFICATION OF CHIEF FINANCIAL OFFICER (Regulation-23):

No person shall be appointed as the chief financial officer of a company unless:

- a) he/ she has at least 3 years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and is a member of ICAP or ICMAP;
- b) he/ she has at least 5 years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and is either a member of professional body of accountants whose qualification is recognized as equivalent to post graduate degree by HEC or has a postgraduate degree in finance from a university in Pakistan or equivalent recognized and approved by the Higher Education Commission of Pakistan (HEC);
- c) he/ she has atleast 7 years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and has a suitable degree from a university in Pakistan or abroad equivalent to graduate degree, recognized and approved by the Higher Education Commission of Pakistan (HEC). The Commission, on application from the company, shall determine the suitability of such candidate.

QUALIFICATION OF INTERNAL AUDITOR (Regulation-24):

No person shall be appointed as the head of internal audit unless:

- a) he/she has 3 years of relevant experience in audit or finance or compliance function and is a member of ICAP or ICMAP; or
- b) he/she has 5 years of relevant experience in audit or finance or compliance function and:
 - is a Certified Internal Auditor; or
 - is a Certified Fraud Examiner; or
 - is a Certified Internal Control Auditor; or
 - has a post graduate degree in business, finance from a university or equivalent recognized and approved by the Higher Education Commission of Pakistan (HEC) and is a member of a professional body relevant to such qualification, if applicable.
- c) he/ she has atleast 7 years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and has a suitable degree from a university in Pakistan or abroad equivalent to graduate degree, recognized and approved by the Higher Education Commission of Pakistan (HEC). The Commission, on application from the company, shall determine the suitability of such candidate.

BODY OF PROFESSIONAL ACCOUNTANTS: means

- a) established in Pakistan, governed under a special enactment of the Federal Government as a self-regulatory organization managed by a representative National Council, and has a prescribed minimum criterion of examination and entitlement of membership of such body*
- b) established outside Pakistan and established under a special enactment in the country of its origin and which is a member of the International Federation of Accountants (IFAC).*

QUALIFICATION OF COMPANY SECRETARY (Regulation-25): No person shall be appointed as the Company Secretary unless he holds the qualification as specified by the Commission.

RESPONSIBILITY FOR FINANCIAL REPORTING AND CORPORATE COMPLIANCE

FINANCIAL STATEMENT ENDORSED BY CFO AND CEO (Regulation-26): The chief executive officer and the chief financial officer shall duly endorse the quarterly, half-yearly and annual financial statements under their respective signatures prior to placing and circulating the same for consideration and approval of the board of directors.

EXTERNAL AUDITOR (Regulation-27): Chief executive officer and chief financial officer shall have the annual and interim financial statement (both separate and consolidated where applicable) initialed by the external auditors before presenting it to the audit committee and the board of directors for approval.

COMMITTEES OF BOARD

AUDIT COMMITTEE (Regulation-28):

Composition:

The audit committee shall be constituted by board of directors keeping in view the following requirements:

- 1) The board of directors of every company shall establish an audit committee of at least of three members comprising of non-executive directors and at least one independent director.
- 2) Chairman of the committee shall be an independent director, who shall not be the chairman of the board.
- 3) The board shall satisfy itself such that at least one member of the audit committee qualifies as “financially literate”.
- 4) The Audit Committee of a company shall appoint a secretary of the committee who shall either be the company secretary or head of internal audit.

“FINANCIAL LITERATE” shall mean a person who is a member of a recognized body of professional accountants or has a post graduate degree in finance from a university or equivalent institution, either in Pakistan or abroad recognized by the Higher Education Commission of Pakistan.

Meeting:

The meeting of the audit committee shall be held as per the following requirements:

- 1) The audit committee of a company shall meet at least once every quarter of the financial year. These meetings shall be held prior to the approval of interim results of the company by its board of directors and after completion of external audit.

- 2) A meeting of the audit committee shall also be held, if requested by the external auditors or the head of internal audit.
- 3) The head of internal audit and external auditors represented by engagement partner or in his absence any other partner designated by the audit firm shall attend meetings of the audit committee at which issues relating to accounts and audit are discussed.
- 4) CEO and CFO shall not attend any meeting of the audit committee except by invitation only.
- 5) At least once a year, the audit committee shall meet the external auditors without the CFO and the head of internal audit being present.
- 6) At least once a year, the audit committee shall meet the head of internal audit and other members of the internal audit function without CFO and the external auditors being present.

Terms of Reference:

The board of directors of every company shall determine the terms of reference of the audit committee. The board of directors shall provide adequate resources and authority to enable the audit committee to carry out its responsibilities effectively. The terms of reference of the audit committee shall be explicitly documented and shall also include the following:

- a) determination of appropriate measures to safeguard the company's assets;
- b) review of annual and interim financial statements of the company, prior to their approval by the Board of Directors, focusing on:
 - major judgmental areas;
 - significant adjustments resulting from the audit;
 - going concern assumption;
 - any changes in accounting policies and practices;
 - compliance with applicable accounting standards;
 - compliance with these regulations and other statutory and regulatory requirements; and
 - all related party transactions.
- c) review of preliminary announcements of results prior to external communication and publication;
- d) facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);
- e) review of management letter issued by external auditors and management's response thereto;
- f) ensuring coordination between the internal and external auditors of the company;
- g) review of the scope and extent of internal audit, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the company;
- h) consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto;
- i) ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;
- j) review of the company's statement on internal control systems prior to endorsement by the board of directors and internal audit reports;
- k) instituting special projects, value for money studies or other investigations on any matter specified by the board of directors, in consultation with the chief executive officer and to consider remittance of any matter to the external auditors or to any other external body;
- l) determination of compliance with relevant statutory requirements;

- m) monitoring compliance with the these regulations and identification of significant violations thereof;
- n) review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;
- o) recommend to the board of directors the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements. The board of directors shall give due consideration to the recommendations of the audit committee and where it acts otherwise it shall record the reasons thereof.
- p) consideration of any other issue or matter as may be assigned by the board of directors.

Reporting Procedure:

The secretary of audit committee shall circulate minutes of meetings of the audit committee to all members, directors, head of internal audit and where required to CFO prior to the next meeting of the board. Where this is not practicable, the chairman of the Audit Committee shall communicate a synopsis of the proceedings to the board and the minutes shall be circulated immediately after the meeting of the board.

HUMAN RESOURCE AND REMUNERATION COMMITTEE (Regulation-29):

Composition:

There shall be a human resource and remuneration committee of at least of three members comprising a majority of non-executive directors of whom atleast one member shall be an independent director. The chairman of the committee shall be an independent director. The chief executive officer may be included as a member of the committee.

Meeting:

The committee shall meet at least once in a financial year and may meet more often if requested by a member of the board, or committee itself or the chief executive officer. The head of human resource or any other person appointed by the board of directors may act as the secretary of the committee.

The chief executive officer (if not a member of the committee), head of human resource (if not the secretary to committee) or any other advisor or person may attend the meeting only by invitation. A member of committee shall not participate in the proceedings of the committee when an agenda item relating to his performance or review or renewal of the terms and conditions of his service comes up for consideration.

Terms of Reference:

The Terms of reference of committee shall be determined by the board of directors which may include the following:

- a) recommend to the board for consideration and approval a policy framework for determining remuneration of directors (both executive and non-executive directors and members of senior management). The definition of senior management will be determined by the board which shall normally include the first layer of management below the chief executive officer level;
- b) undertaking annually a formal process of evaluation of performance of the board as a whole and its committees either directly or by engaging external independent consultant and if so

appointed, a statement to that effect shall be made in the directors' report disclosing name, qualifications and major terms of appointment;

- c) recommending human resource management policies to the board;
- d) recommending to the board the selection, evaluation, development, compensation (including retirement benefits) of chief operating officer, chief financial officer, company secretary and head of internal audit;
- e) consideration and approval on recommendations of chief executive officer on such matters for key management positions who report directly to chief executive officer or chief operating officer; and
- f) where human resource and remuneration consultants are appointed, their credentials shall be known by the committee and a statement shall be made by them as to whether they have any other connection with the company.

NOMINATION COMMITTEE (Regulation-30): The board may constitute a separate committee, designated as the nomination committee, of such number and class of directors, as it may deem appropriate in its circumstances. The nomination committee shall be responsible for considering and making recommendations to the Board in respect of the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review and for making recommendations to the Board with regard to any changes necessary. The terms of reference of nomination committee shall be determined by the board of directors ensuring there is no duplication or conflict with matters stipulated under terms of reference of HR&R committee.

Risk Management Committee (Regulation-31): The board may constitute the risk management committee, of such number and class of directors, as it may deem appropriate in its circumstances, to carry out a review of effectiveness of risk management procedures and present a report to the Board. The terms of reference of the committee may include the following:

- a) Monitoring and review of all material controls (financial, operational, compliance);
- b) Risk mitigation measures are robust and integrity of financial information is ensured; and
- c) Appropriate extent of disclosure of company's risk framework and internal control system in Directors report.

INTERNAL AUDIT (Regulation-32)

Composition:

- There shall be an internal audit function in every company. The head of internal audit shall functionally report to the audit committee and administratively to the chief executive officer and his performance appraisal shall be done jointly by the Chairman of the audit committee and the chief executive officer.
- A director cannot be appointed, in any capacity, in the internal audit function to ensure independence of the internal audit function.
- The board shall ensure that the internal audit team comprises of experts of relevant disciplines in order to cover all major heads of accounts maintained by the company.

Functional profile:

- The company shall ensure that head of internal audit is suitably qualified, experienced and conversant with the company's policies and procedures.
- The internal audit function, wholly or partially, may be outsourced by the company to a

professional services firm or be performed by the internal audit staff of holding company. In lieu of outsourcing, the company shall appoint or designate a fulltime employee other than CFO, as head of internal audit holding equivalent qualification prescribed under these Regulations, to act as coordinator between firm providing internal audit services and the board.

- Provided that while outsourcing the function, the company shall not appoint its existing external auditors as internal auditors.
- All companies shall ensure that internal audit reports are provided for the review of external auditors. The auditors shall discuss any major findings in relation to the reports with the audit committee, which shall report matters of significance to the board of directors.

EXTERNAL AUDIT

TERMS OF APPOINTMENT (Regulation-33):

No company shall appoint as external auditors, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan.

No company shall appoint as external auditors, a firm of auditors which or a partner of which is non-compliant with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.

The Board of Directors of a company shall recommend appointment of external auditors for a year and his remuneration, as suggested by the audit committee. The recommendations of the audit committee for appointment of an auditor or otherwise shall be included in the Directors' Report. In case of a recommendation for appointment of an auditor other than the retiring auditor, the reasons for the same shall be included in the Directors' Report.

No company shall appoint its auditors to provide services in addition to audit except in accordance with these regulations and shall require the auditors to observe applicable International Federation of Accountants guidelines in this regard. The company shall ensure that the auditors do not perform management functions or make management decisions, responsibility for which remains with the board of directors and management of the company.

No company shall appoint a person as an external auditor or a person involved in the audit of a company who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the company.

Every company shall require external auditors to furnish a management letter to its board of directors within 45 days of the date of audit report.

Provided that any matter deemed significant by the external auditor shall be communicated in writing to the board of directors prior to the approval of the audited accounts by the board of directors.

ROTATION OF AUDITORS (Regulation-34):

All listed companies in the financial sector shall change their external auditors every five years.

Provided further that all inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts.

Explanation: Financial sector, for this purpose, means banks, non-banking financial companies (NBFC's), modarabas and insurance/ takaful companies.

All listed companies other than those in the financial sector shall, at the minimum, rotate the engagement partner after every five years.

REPORTING & DISCLOSURE

DIRECTORS' REPORT (Regulation-35): The quarterly unaudited financial statements of companies shall be published and circulated along with directors' review on the affairs of the company.

COMPOSITION OF BOARD (Regulation-36):

The board shall state in the Directors' Report the following:

- Total number of Directors:
 - a) Male:
 - b) Female:
- Composition:
 - a) Independent Directors
 - b) Other Nonexecutive Directors
 - c) Executive Directors

COMMITTEES OF THE BOARD (Regulation-37): The names of Members of board committees shall be disclosed in each Directors' Report of the company.

DIRECTOR'S REMUNERATION (Regulation-38):

The Directors in their report to members shall state the remuneration policy of non-executive directors including independent directors, as approved by the board of directors. This includes disclosing the significant features and elements thereof. Companies are also encouraged to post on the company's web site the key elements of the directors' remuneration policy.

The company's Annual Report shall contain details of aggregate amount of remuneration separately of executive and non-executive directors, including salary/fee, perquisites, benefits and performance-linked incentives etc.

DISCLOSURE OF SIGNIFICANT POLICIES ON WEBSITE (Regulation-39): Company may post the key elements of its significant policies on its website.

COMPLIANCE STATEMENT AND AUDITOR REVIEW (Regulation-40):

All companies shall publish and circulate a statement, as given under annexure A, along with their annual reports to set out the status of their compliance with the requirements of Regulations. The statement shall be specific and deemed to be supported by the necessary evidence held by the company making the said statement.

All companies shall ensure that the statement of compliance is reviewed and certified by statutory auditors as per relevant Regulations specified by Commission. Statutory auditors of company shall ensure that any non-compliance with these Regulations is highlighted in their review report.

ANNEXURE A

Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2017

NAME OF THE COMPANY YEAR ENDING

The company has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are _____ as per the following:
 - a) Male:
 - b) Female:
2. The composition of board is as follows:
 - a) Independent Directors
 - b) Other Non-executive Director
 - c) Executive Directors
3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
4. The company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
5. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose. The board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of board.
8. The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. The Board has arranged Directors' Training program for the following:
(Name of Director)
(Name of Executive & Designation (if applicable))
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.
11. CFO and CEO duly endorsed the financial statements before approval of the board.
12. The board has formed committees comprising of members given below:
 - a) Audit Committee (Name of members and Chairman)
 - b) HR and Remuneration Committee (Name of members and Chairman)
 - c) Nomination Committee (if applicable) (Name of members and Chairman)

d) Risk Management Committee (if applicable) (Name of members and Chairman)

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following:
 - a) Audit Committee
 - b) HR and Remuneration Committee
 - c) Nomination Committee (if applicable)
 - d) Risk Management Committee (if applicable)
15. The board has set up an effective internal audit function/ or has outsourced the internal audit function to _____ who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.
16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating
17. under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other requirements of the Regulations have been complied with.

Signature (s)
(Name in block letters)
Chairman