
Chapter 7
Audit Committee



7.1 Composition

SBP Directives Prudential Regulation XXIX Sub-clause vii of clause 2

To share the load of activities, the Board may form specialized committees with well-defined objectives, authorities and tenure. These committees, preferably comprising of 'Non-Executive' board members, shall oversee areas like audit, risk management, recruitment, compensation, credit, etc without indulging in day-to-day operations in these areas. These committees should apprise the full board of their activities and achievements on regular basis.

SECP's Code

Para XXX

The Board of Directors of every listed company shall establish an Audit Committee, which shall comprise not less than three members, including the chairman. Majority of the members of the Committee shall be from among the non-executive directors of the listed company and the chairman of the Audit Committee shall preferably be a non-executive director. The names of members of the Audit Committee shall be disclosed in each annual report of the listed company.

7.2 Meetings

SECP'S CODE

Para XXXI

The Audit Committee of a listed 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 listed company by its Board of Directors and before and after completion of external audit. A meeting of the Audit Committee shall also be held, if requested by the external auditors or the head of internal audit.

7.3 Terms of Reference

SECP'S CODE

Para XXXIII

The Board of Directors of every listed company shall determine the terms of reference of the Audit Committee. The Audit Committee shall, among other things, be responsible for recommending to the Board of Directors the appointment of external auditors by the listed company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees



and provision by external auditors of any service to the listed company in addition to audit of its financial statements. In the absence of strong grounds to proceed otherwise, the Board of Directors shall act in accordance with the recommendations of the Audit Committee in all these matters.

The terms of reference of the Audit Committee shall also include the following:

- a) Determination of appropriate measures to safeguard the listed company's assets.
- b) Review of preliminary announcements of results prior to publication.
- c) Review of quarterly, half-yearly and annual financial statements of the listed company, prior to their approval by the Board of Directors, focusing on:
 - ~~///~~ major judgmental areas;
 - ~~///~~ significant adjustments resulting from the audit;
 - ~~///~~ the going-concern assumption;
 - ~~///~~ any changes in accounting policies and practices;
 - ~~///~~ compliance with applicable accounting standards; and
 - ~~///~~ compliance with listing regulations and other statutory and regulatory requirements.
- 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 listed company.
- g) Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the listed company.
- h) Consideration of major findings of internal investigations and management's response thereto.



- i) Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;
- j) review of the listed company's statement on internal control systems prior to endorsement by the Board of Directors.
- 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 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 best practices of corporate governance and identification of significant violations thereof.
- n) Consideration of any other issue or matter as may be assigned by the Board of Directors.

7.4 Reporting Procedure

SECP's Code

Para XXXIV

The Audit Committee of a listed company shall appoint a secretary of the Committee. The secretary shall circulate minutes of meetings of the Audit Committee to all members, directors and the CFO within a fortnight.

7.5 Internal Audit, Audit Committee & External Auditor

SECP's Code

Para XXXV, XXXVI

xxxv) There shall be an internal audit function in every listed company. The head of internal audit shall have access to the chair of the Audit Committee.

xxxvi) All listed 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.