

## XI. Code of Corporate Governance 2012

35. All listed companies shall ensure compliance with the following Code of Corporate Governance (CCG). All provisions except where explicitly stated otherwise are mandatory.

### **Composition of the Board**

- i. The board of directors is encouraged to have a balance of executive and non-executive directors, including independent directors and those representing minority interests with the requisite skills, competence, knowledge and experience so that the board as a group includes core competencies and diversity, including gender, considered relevant in the context of the company's operations.

For this purpose listed companies shall take the following steps:

- (a) the minority shareholders as a class are facilitated to contest election of directors by proxy solicitation, for which purpose the listed companies shall:
  - annex with the notice issued under Section 178 (4) of the Ordinance, a statement by a candidate from among the minority shareholders who seeks to contest election to the board of directors, such statement shall include a profile of the candidate(s);
  - provide information regarding members and shareholding structure to the candidate(s) representing minority shareholders; and
  - on a request by the candidate(s) representing minority shareholders and at the cost of the company, annex to the notice issued under Section 178 (4) of the Ordinance an additional copy of proxy form duly filled in by such candidate(s);
- (b) the board of directors of each listed company shall have at least one and preferably one third of the total members of the board as independent directors. The board shall state in the annual report the names of the non-executive, executive and independent director(s).

*Explanation:* For the purpose of this clause, the expression "independent director" means a director who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the listed company, its associated companies, subsidiaries, holding company or directors. The test of independence principally emanates from the fact whether such person can be reasonably perceived as being able to exercise independent business judgment without being subservient to any form of conflict of interest.

Provided that without prejudice to the generality of this explanation no director shall be considered independent if one or more of the following circumstances exist:

- He/she has been an employee of the company, any of its subsidiaries or

holding company within the last three years;

- He/she is or has been the CEO of subsidiaries, associated company, associated undertaking or holding company in the last three years;
- He/she has, or has had within the last three years, a material business relationship with the company either directly, or indirectly as a partner, major shareholder or director of a body that has such a relationship with the company:

*Explanation:* The major shareholder means a person who, individually or in concert with his family or as part of a group, holds 10% or more shares having voting rights in the paid-up capital of the company;

- He/she has received remuneration in the three years preceding his/her appointment as a director or receives additional remuneration, excluding retirement benefits from the company apart from a director's fee or has participated in the company's share option or a performance-related pay scheme;
- He/she is a close relative of the company's promoters, directors or major shareholders:

*Explanation:* close relative means spouse(s), lineal ascendants and descendants and siblings;

- He/she holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- He/she has served on the board for more than three consecutive terms from the date of his first appointment provided that such person shall be deemed "independent director" after a lapse of one term.

Any person nominated as a director under Sections 182 and 183 of the Ordinance, shall not be taken to be an "independent director" for the above-mentioned purposes.

The director representing an institutional investor shall be selected by such investor through a resolution of its board of directors, either specifically or generally, and the policy with regard to selection of such person for election on the board of directors of the investee company shall be annexed to the Directors' Report of the investor company.

- (c) professional indemnity insurance cover in respect of independent directors shall be encouraged.
- (d) executive directors, i.e., paid executives of the company from among senior

management, shall not be more than one third of the elected directors, including the Chief Executive:

Provided that nothing contained in this clause shall supersede any law for the time being in force or regulation made by any regulator regarding the composition of the board.

#### Maximum number of directorships to be held by a director

- ii. No person shall be elected or nominated as a director of more than seven listed companies simultaneously:

Provided that this limit shall not include the directorships in the listed subsidiaries of a listed holding company<sup>1</sup>.

#### Filling up a casual vacancy

- iii. Any casual vacancy on the board of directors of a listed company shall be filled up by the directors at the earliest but not later than 90 days thereof.

#### Responsibilities, powers and functions of board of directors

- iv. The board of directors of a listed company shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interests of the listed company.
- v. The board of directors of a listed company shall ensure that:
  - (a) professional standards and corporate values are put in place that promote integrity for the board, senior management and other employees in the form of a Code of Conduct, defining therein acceptable and unacceptable behaviors. 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;
  - (b) adequate systems and controls are in place for identification and redress of grievances arising from unethical practices.
  - (c) a vision and/or mission statement and overall corporate strategy for the listed company is prepared and adopted. It shall further ensure that significant policies have been formulated;

*Explanation:*

The significant policies for this purpose may include:

- governance, risk management and compliance issues;

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<sup>1</sup> "Holding company" means a holding company as defined in Section 3 of the Companies Ordinance, 1984.

- human resource management including preparation of a succession plan;
- procurement of goods and services;
- investors' relations including but not limited to general investor awareness, complaints and communication, etc.;
- marketing;
- determination of terms of credit and discount to customers;
- write-off of bad/doubtful debts, advances and receivables;
- capital expenditure, planning and control;
- investments and disinvestment of funds;
- borrowing of moneys;
- determination and delegation of financial powers;
- transactions or contracts with associated companies and related parties;
- the corporate social responsibility (CSR) initiatives and other philanthropic activities including donations, charities, contributions and other payments of a similar nature;
- health, safety and environment; and
- the whistleblower policy.

A complete record of particulars of the significant policies along with the dates on which they were approved or amended by the board of directors shall be maintained.

- (d) a system of sound internal control is established, which is effectively implemented and maintained at all levels within the company;
  - (e) within two years of coming into force of this Code, a mechanism is put in place for an annual evaluation of the board's own performance;
  - (f) the decisions on the following material transactions or significant matters are documented by a resolution passed at a meeting of the board:
    - 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;
    - determination of the nature of loans and advances made by the listed company and fixing a monetary limit thereof.
  - (g) 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 subcommittee of the board that may be set up for the purpose.
- vi. The Chairman and the Chief Executive Officer (CEO), by whatever name called, shall not be the same person except where provided for under any other law. The Chairman shall be elected from among the non-executive directors of the listed company. The Chairman shall be responsible for leadership of the board and shall ensure that the board plays an

effective role in fulfilling all its responsibilities. The Board of Directors shall clearly define the respective roles and responsibilities of the Chairman and CEO.

Provided that the provisions of this clause, clauses (i)(b), (i)(d) and (ii) shall take effect when the board is reconstituted on the expiry of its current term after coming into force of this Code.

### Meetings of the board

- vii. All written notices, 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.
- viii. The Chairman shall ensure that the minutes of meetings of the board of directors are appropriately recorded. The Company Secretary shall be secretary to the board.

In the event that a director of a listed company is of the view that his dissenting note has not been satisfactorily recorded in the minutes of a meeting of the Board of Directors, he may refer the matter to the Company Secretary. The director may require the note to be appended to the minutes, failing which he may file an objection with the Securities and Exchange Commission of Pakistan (SECP) in the form of a statement to that effect. The objection may be filed with the SECP within 30 days of the date of confirmation of the minutes of the meeting.

### Significant issues to be placed for decision of Board of Directors

- ix. In order to strengthen and formalize corporate decision-making process, significant issues shall be placed for the information, consideration and decision of the board of directors of listed companies and/or its committees.

The significant issues for this purpose may include:

- the CEO shall immediately bring before the board, as soon as it is foreseen that the company will not be in a position of meeting its obligations on any loans (including penalties on late payments and other dues, to a creditor, bank or financial institution or default in payment of public deposit), TFCs, Sukuks or any other debt instrument. Full details of the company's failure to meet obligations shall be provided in the company's quarterly and annual financial statements.
- annual business plan, cash flow projections, forecasts and strategic plan;
- budgets including capital, manpower and overhead budgets, along with variance analyses;
- matters recommended and/or reported by the committees of the board;
- quarterly operating results of the listed company as a whole and in terms of its operating divisions or business segments;
- internal audit reports, including cases of fraud, bribery, corruption, or irregularities of a material nature;
- management letter issued by the external auditors;

- details of joint venture or collaboration agreements or agreements with distributors, agents, etc.;
- promulgation or amendment to a law, rule or regulation, enforcement of an accounting standard and such other matters as may affect the listed company;
- status and implications of any law suit or proceedings of material nature, filed by or against the listed company;
- any show cause, demand or prosecution notice received from revenue or regulatory authorities;
- failure to recover material amounts of loans, advances, and deposits made by the listed company, including trade debts and inter-corporate finances;
- any significant accidents, dangerous occurrences and instances of pollution and environmental problems involving the listed company;
- significant public or product liability claims made or likely to be made against the listed company, including any adverse judgment or order made on the conduct of the listed company or of another company that may bear negatively on the listed company;
- report on governance, risk management and compliance issues. Risks considered shall include reputational risk and shall address risk analysis, risk management and risk communication;
- disputes with labor and their proposed solutions, any agreement with the labor union or collective bargaining agent and any charter of demands on the listed company;
- whistleblower protection mechanism;
- report on CSR activities; and
- payment for goodwill, brand equity or intellectual property.

(x) **Related party transactions**

- a) The details of all related party transactions shall be placed 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.
- b) The related party transactions which are not executed at arm's length price shall also be placed separately at each board meeting along with necessary justification for consideration and approval of the board on recommendation of the Audit Committee of the listed company.
- c) The board of directors of a company shall approve the pricing methods for related party transactions that were made on the terms equivalent to those that prevail in arm's length transaction, only if such terms can be substantiated.
- d) Every company shall maintain a party wise record of transactions, in each financial year, entered into with related parties in that year along with all relevant documents and explanations. The record of related party transactions shall include the following particulars in respect of each transaction:
  - i) Name of related party;

- ii) Nature of relationship with related party;
- iii) Nature of transaction;
- iv) Amount of transaction; and
- v) Terms and conditions of transaction, including the amount of consideration received or given.

### **Directors' Training Program**

- (xi) All listed companies shall make appropriate arrangements to carry out orientation courses for their directors to acquaint them with this code, applicable laws, their duties and responsibilities to enable them to effectively manage the affairs of the listed companies for and on behalf of shareholders.

It shall be mandatory for all the directors of the listed companies to have certification under any directors' training program offered by institutions—local or foreign—that meet the criteria specified by the SECP:

Provided that from June 30, 2012 to June 30, 2016 every year, a minimum of one director on the board shall acquire the said certification under this program each year and thereafter all directors shall obtain it:

Provided further that individuals with 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 exempted from the directors' training program.

### **Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit**

#### **Appointment and removal**

- (xii) The appointment, remuneration and terms and conditions of employment of the Chief Financial Officer (CFO), the Company Secretary and the Head of Internal Audit of listed companies shall be determined by the board of directors.

The removal of the CFO and Company Secretary of listed companies shall be made with the approval of the board of directors.

The removal of Head of Internal Audit shall be made with the approval of the board only upon recommendation of the Chairman of the Audit Committee:

*Explanation:* For this purpose the term removal shall include non renewal of contracts of the CFO, Company Secretary and Head of Internal Audit.

#### **Qualifications of CFO and Head of Internal Audit**

- (xiii) No person shall be appointed as the CFO of a listed company unless he/she has at least five years of experience of handling financial or corporate affairs of a listed company or a bank or a financial institution and is:

- (a) a member of a recognized body of professional accountants; or
- (b) has a postgraduate degree in finance from a recognized university or equivalent.

Provided that individuals serving as CFO of a listed company for the last five years at the time of coming into effect of this Code shall be exempted from the above qualification requirement.

(xiv) No person shall be appointed as the Head of Internal Audit of a listed company unless he/she has 5 years of relevant audit experience and is:

- (a) a member of a recognized body of professional accountants; or
- (b) a Certified Internal Auditor; or
- (c) a Certified Fraud Examiner; or
- (d) a Certified Internal Control Auditor

Provided that individuals serving as Head of Internal Audit of a listed company for the last five years at the time of coming into effect of this Code shall be exempted from the above qualification requirement.

#### **Requirement to attend board meetings**

(xv) The CFO and Company Secretary of a listed company or in their absence, the nominee, appointed by the board, shall attend all meetings of the Board of Directors. Provided that the CFO and Company Secretary shall not attend such part of a meeting of the Board of Directors, which involves consideration of an agenda item relating to the CFO and Company Secretary respectively.

#### **Corporate and financial reporting framework**

(xvi) The directors of listed companies shall annex statements to the following effect with the Directors' Report, prepared under Section 236 of the Ordinance:

- (a) The financial statements, prepared by the management of the listed company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- (b) Proper books of account of the listed company have been maintained;
- (c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- (d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures therefrom has been adequately disclosed and explained;



- (e) The system of internal control is sound in design and has been effectively implemented and monitored; and
- (f) There are no significant doubts upon the listed company's ability to continue as a going concern:

Provided that where necessary the following information shall also be annexed to the Directors' Reports of listed companies:

- a) If the listed company is not considered to be a going concern, the fact along with the reasons shall be disclosed;
- b) Significant deviations from last year in operating results of the listed company shall be highlighted and reasons thereof shall be explained;
- c) Key operating and financial data of last six years shall be summarized;
- d) If the listed company has neither declared dividend nor issued bonus shares for any year, the reasons thereof shall be given;
- e) Where any statutory payment on account of taxes, duties, levies and charges is outstanding, the amount together with a brief description and reasons for the same shall be disclosed;
- f) Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, shall be outlined along with future prospects, risks and uncertainties surrounding the listed company;
- g) A statement as to the value of investments of provident, gratuity and pension funds, based on their respective audited accounts, shall be included;
- h) The number of board and committees' meetings held during the year and attendance by each director shall be disclosed;
- i) The details of training programs attended by directors;
- j) The pattern of shareholding shall be reported to disclose the aggregate number of shares (along with name wise details where stated below) held by:
  - I. associated companies, undertakings and related parties (name wise details);
  - II. mutual funds (name wise details);
  - III. directors and their spouse(s) and minor children (name wise details);
  - IV. executives;
  - V. public sector companies and corporations;
  - VI. banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds; and

- VII. shareholders holding five percent or more voting rights in the *listed* company (name wise details).

*Explanation:* For the purpose of this sub-clause, the expression “executive” means an employee of a listed company other than the CEO and directors.

- k) The directors’ report shall cover, loans, TFCs, sukuks or any other debt instruments in which the company is in default or likely to default. There shall be a clear presentation with details as to the aggregate amount of the debt overdue or likely to become overdue and the reasons for the default/emerging default situation and the measures taken by the company to address and settle such default situation.
- l) All trades in the shares of the listed company, carried out by its directors, executives and their spouses and minor children shall also be disclosed.

*Explanation:* For the purpose of this sub-clause and clause xxiii the expression “executive” means the CEO, COO, CFO, Head of Internal Audit and Company Secretary by whatever name called, and other employees of the company for whom the board of directors will set the threshold to be reviewed on an annual basis and disclosed in the annual report.

#### **Directors’ remuneration**

- (xvii) There shall be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director shall be involved in deciding his/her own remuneration.
  - a) Directors’ remuneration packages shall encourage value creation within the company. These shall be subject to prior approval of shareholders/board as required by company’s Articles of Association. Levels of remuneration shall be appropriate to attract and retain the directors needed to govern the company successfully.

Subject to the provisions of the Ordinance and the company’s Articles of Association, the shareholders/board shall determine the remuneration for non-executive directors. However, it shall not be at a level that could be perceived to compromise their independence.

- (b) The company’s Annual Report shall contain details of the aggregate remuneration separately of executive and non-executive directors, including salary/fee, benefits and performance-linked incentives etc.

#### **Frequency of financial reporting**

- (xviii) The quarterly unaudited financial statements of listed companies shall be published and circulated along with directors’ review on the affairs of the listed company.

- (xix) All listed companies shall ensure that second quarterly financial statements are subjected to a limited scope review by the statutory auditors in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan (ICAP) and approved by the SECP.
- (xx) Every listed company shall immediately disseminate to the SECP and the stock exchange on which its shares are listed all material information relating to the business and other affairs of the listed company that will affect the market price of its shares. The mode of dissemination of information shall be prescribed by the stock exchange on which shares of the company are listed.

This information may include but shall not be restricted to any material change in the nature of business of the company; information regarding any joint ventures, merger or acquisition or any material contract entered into or lost; purchase or sale of significant assets; franchise, brand name, goodwill, royalty, financial plan, etc.; any unforeseen or undisclosed impairment of assets due to technological obsolescence, etc; delay or loss of production due to strike, fire, natural calamities, major breakdown, etc; issue or redemption of any securities; a major change in borrowings including projected gains to accrue to the company; any default in repayment or rescheduling of loans; and change in directors, Chairman or CEO of the listed company:

*Explanation:*

Such information shall be disseminated to the above-mentioned entities as soon as any decision about above referred matters or any other significant issue is taken by the board or a significant matter requiring disclosure has come into the knowledge of company's management.

#### **Responsibility for financial reporting and corporate compliance**

- (xxi) No listed company shall circulate its financial statements unless the CEO and the CFO present the financial statements, duly endorsed under their respective signatures, for consideration and approval of the Board of Directors.

It shall be mandatory for the CEO and CFO to have the second quarterly and annual accounts (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.

- (xxii) The Company Secretary of a listed company shall furnish a Secretarial Compliance Certificate, on the prescribed form (Appendix A), along with annual return filed with the registrar concerned certifying that the secretarial and corporate requirements of the Ordinance have been complied with.

#### **Disclosure of interest by a director holding company's shares**

- (xxiii) Where any director, CEO or executive of a listed company or their spouses sell, buy or transact, whether directly or indirectly, in shares of the listed company of which he is a director, CEO or executive, as the case may be, he shall immediately notify in writing to

the Company Secretary of such transaction. Such director, CEO or executive, as the case may be, shall also deliver a written record of the price, number of shares, form of share certificates, i.e., whether physical or electronic within the Central Depository System, and nature of transaction to the Company Secretary within four days of effecting the transaction. The notice of the director, CEO or executive, as the case may be, shall be presented by the Company Secretary at the meeting of the board of directors immediately subsequent to such transaction. In the event of default by a director, CEO or executive to give a written notice or deliver a written record, the Company Secretary shall place the matter before the board of directors in its immediate next meeting:

Provided that each listed company shall determine a closed period prior to the announcement of interim/ final results and any business decision, which may materially affect the market price of its shares. No director, CEO or executive shall, directly or indirectly, deal in the shares of the listed company in any manner during the closed period.

The closed period shall start from the day when any document/statement, which forms the basis of price sensitive information, is sent to the board of directors and terminate after the information is made public.

Every listed company shall advise its directors about the closed period at the time of circulating agenda and working papers for the board meetings, along with sending intimation of the same to the stock exchanges.

## **Committees of the board**

### **Composition**

(xxiv) The board of directors of every listed company shall establish an Audit Committee, at least of three members comprising of non-executive directors. The chairman of the committee shall be an independent director, who shall not be the chairman of the board. The board shall satisfy itself such that at least one member of the audit committee has relevant financial skills/expertise and experience.

(xxv) There shall also be a Human Resource and Remuneration (HR&R) Committee at least of three members comprising a majority of non-executive directors, including preferably an independent director. The CEO may be included as a member of the committee but not as the chairman of committee. The CEO if member of HR&R Committee shall not participate in the proceedings of the committee on matters that directly relate to his performance and compensation.

The committee shall be responsible for:

- i) recommending human resource management policies to the board;
- ii) recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;
- iii) recommending to the board the selection, evaluation, compensation (including retirement benefits) of COO, CFO, Company Secretary and Head of

- Internal Audit; and
- iv) consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO or COO.

(xxvi) The names of members of the committees of the board shall be disclosed in each Annual Report of the listed company.

### **Audit Committee**

#### **Frequency of meetings, attendance, terms of reference and reporting procedures**

(xxvii) 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.

#### **Attendance at meetings**

(xxviii) The CFO, 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:

Provided that at least once a year, the Audit Committee shall meet the external auditors without the CFO and the Head of Internal Audit being present:

Provided further that at least once a year, the Audit Committee shall meet the head of internal audit and other members of the internal audit function without the CFO and the external auditors being present:

Provided further that the chairman of the Audit Committee and engagement partner of external auditor or in his absence any other partner designated by the audit firm shall be present at the AGM for necessary feedback to the shareholders.

#### **Terms of reference**

(xxix) The Board of Directors of every listed company shall determine the terms of reference of the Audit Committee. The Board shall provide adequate resources and authority to enable the Audit Committee carry out its responsibilities effectively. The Audit Committee shall, inter alia, recommend to the Board of Directors the appointment of external auditors, their removal, audit fees, the provision by the external auditors of any service to the listed company in addition to audit of its financial statements. The Board of Directors shall give due consideration to the recommendations of the Audit Committee in all these matters and where it acts otherwise, it shall record the reasons thereof.

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 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;
  - compliance with listing regulations and other statutory and regulatory requirements; and
  - significant related party transactions.
- (c) review of preliminary announcements of results prior to 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 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 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 listed 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 CEO 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; and
- (n) consideration of any other issue or matter as may be assigned by the Board of Directors.

### Reporting procedure

(xxx) The Audit Committee of a listed company shall appoint a secretary of the committee who shall either be the Company Secretary or Head of Internal Audit. However, CFO shall not be appointed as the secretary to the Audit Committee. The secretary shall circulate minutes of meetings of the Audit Committee to all members, directors, Head of internal

Audit and the CFO prior to the next meeting of the board and 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.

### **Internal audit**

(xxxi) There shall be an internal audit function in every listed company. The Head of internal Audit shall functionally report to the Audit Committee and administratively to the CEO.

A director cannot be appointed, in any capacity, in the internal audit function, to ensure independence of the internal audit function.

The internal audit function may be outsourced by a listed company to a professional services firm or be performed by the internal audit staff of holding company. However, due care shall be exercised to ensure that suitably qualified and experienced persons, who are conversant with the company's policies and procedures, are engaged in the internal audit. In the event of outsourcing the internal audit function, company shall appoint or designate a fulltime employee other than CFO, as Head of Internal Audit, to act as coordinator between firm providing internal audit services and the board:

Provided that while outsourcing the function, the company must not appoint its existing external auditors as internal auditors.

(xxxii) 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.

### **External auditors**

(xxxiii) No listed 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.

(xxxiv) No listed 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' (IFAC) Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.

(xxxv) The Board of Directors of a listed company shall recommend appointment of external auditors for a year, 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.

(xxxvi) No listed company shall appoint its auditors to provide services in addition to audit except in accordance with the regulations and shall require the auditors to observe applicable IFAC guidelines in this regard and 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 listed company.

(xxxvii) (a) All listed companies in the financial sector shall change their external auditors every five years. Financial sector, for this purpose, means banks, non-banking financial companies (NBFC's), modarabas and insurance/takaful companies; provided 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<sup>2</sup> and

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

(xxxviii) No listed company shall appoint a person as an external auditor or a person involved in the audit of a listed company who is a close relative, i.e., spouse, parents, dependents and non-dependent children, of the CEO, the CFO, an internal auditor or a director of the listed company.

(xxxix) Every listed 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 prior to the approval of the audited accounts by the board.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

(xi) All listed companies shall publish and circulate a statement (in the form as specified in Appendix "B") along with their annual reports to set out the status of their compliance with the requirements set out above. The statement shall be specific and deemed to be supported by the necessary evidence held by the company making the said statement.

(xli) All listed companies shall ensure that the statement of compliance with the best practices of corporate governance is reviewed and certified by statutory auditors, where such compliance can be objectively verified, before its publication. Statutory auditors of listed company shall ensure that any non-compliance with the CCG requirements is highlighted in their review report.

(xlii) Where the SECP is satisfied that it is not practicable to comply with any of the best practices of corporate governance in a particular case, it may, for reasons to be recorded, relax the same subject to such conditions as it may deem fit.

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<sup>2</sup> Joint Notification by SBP & SECP dated February 25, 2004





## Criteria for Institutions desirous of offering Directors' Training Program

### **Background**

The Code of Corporate Governance (Code) 2002, required all listed companies to make appropriate arrangements to conduct orientation and training courses for their directors to acquaint them with their duties and responsibilities and enable them to effectively manage the affairs of listed companies on behalf of the shareholders.

Clause (xiv) of the Code 2002 (clause xi of the Code 2012) requires the directors of the listed companies to have certification under directors' training program offered by any institution – local and/or foreign— that meet the criteria specified by the SECP.

This document lays down the minimum criteria for the eligibility of institutions and the areas that have to be covered in the Directors' Training Program (DTP) offered by them. While the SECP will give initial approval of an institution that can offer DTP, the stock exchanges will formalize an on-going compliance mechanism to ensure that the criteria is met at all times.

This document provides a formal set of criteria to assess and evaluate the programs as well as the institutions offering these programs. The minimum eligibility criteria will help to ensure that only institutions equipped with the necessary infrastructure and resources, offer these programs. The list of areas covered in the said program shall serve to standardize the DTPs in their content and coverage of the subject.

For the aforesaid certification required under the Code, foreign directors who have already participated in a training program that broadly covers the areas listed under para 6 below shall be exempt from the requirement of DTP.

### Criteria for Institutions

DTP may be offered by an institution, after seeking prior approval of the SECP and subject to any conditions imposed by the SECP. An application received by the SECP from any of the institutions, will be judged on the following minimum parameters:

- permanent training set up;
- infrastructure and facilities;
- track record of the institution for the last five years;
- program content and structure as given in this document; and
- key resource (faculty) profile (permanent and adjunct).

The institutions approved by the SECP, will seek its prior approval, if any material change is to be brought to the DTP. The names of the institutions that are approved by the SECP to offer DTP will be placed on the website of the SECP as well as the stock exchanges.

### Program outline

The following minimum criteria shall be met by the institutions who intend to offer DTP:

1. The DTP shall be designed to impart knowledge and develop skills of the board of directors of listed company that are essential for successful achievement of the company's objectives;

2. The course of study shall include both theory and case studies;
3. All faculty members shall have both practical experience as well as an appropriate academic background, suitable for carrying out DTP effectively;
4. The DTP must be spread over a span of at least 40 hours (divided into modules);
5. To increase the knowledge base, it is recommended that pre-training material based on the key elements of corporate governance should be developed and distributed amongst the trainees. The institution shall also provide latest research to the trainees as post-training material to keep them updated with the latest developments taking place around the globe in the areas including following:
  - Good board practices;
  - Control environment and processes;
  - Disclosure and transparency; and
  - Protection of shareholders' rights.
6. The program must cover, *inter alia*, an overview of the principles and the key pillars of corporate governance, its benefits and objectives, the roles and responsibilities of the board and executive management in light of relevant regulatory requirements and latest trends in corporate governance. This will assist the participants to be better equipped to understand and evaluate different approaches to structuring the ownership, control and regulation of companies. The following topics at a minimum shall be included in the course contents:

#### Legal overview

- An overview of relevant laws that have to be adhered to, including the Code of Corporate Governance and the Companies Ordinance 1984;
- The key principles and elements of good corporate governance;
- Significance of director's report in the annual report;
- Directors' fiduciary duties to shareholders under the law; and
- Procedure of appointment, election, retirement and removal of directors.

#### Role and responsibility of the Board of Directors

- Development of code of conduct and other policies, and internal control system;
- Conduct of meetings of board of directors;
- Disclosures of shareholding and trading of securities by directors and their families;
- Ethical obligations;
- Determining closed period;
- The board's role in shaping the company's dividend policy;
- Board composition, roles and responsibilities, powers and functions, duties and liabilities & procedures and practices;
- The right mix of skills and board diversity;
- The institution and importance of independent directors;
- Executive and non-executive remuneration – how to attract, retain and motivate directors and officers;
- Board committees and their roles;
- Succession planning;

- Appointing the CEO, determining terms of appointment of the CEO and evaluating performance of the CEO;
- Defining the roles and responsibilities of the Chairman and the CEO;
- Board performance evaluation;
- Avoiding a box-ticking approach to corporate governance, and stressing the importance of substance over form; and
- Control environment.

#### Financial overview

- Analysis of related party transactions;
- Disclosures and financial reporting framework;
- The benefits of corporate governance including its impact on profitability and shareholder value; and
- How to read, understand and interpret financial statements.

#### Risk management

- Governance, risk management and compliance (GRC) issues; and
- Measures to assess risk

#### International trends and practices

- Global best practices including OECD Guidelines on Corporate Governance;
- The importance of integrity and ethical obligations in exercising business decisions;
- Corporate Social Responsibility (CSR) and Sustainability reporting; and
- Corporate governance framework concerns and challenges.

7. An assessment at the end of each module/section and/or the whole course is mandatory to qualify for the certification.

#### Additional general requirements

1. The institutions offering DTP shall place the names of the certified directors on their websites and also disseminate their names amongst industry and business associations, chambers of commerce and industry, etc. through an appropriate mechanism, so that their names are readily available to the companies who wish to appoint trained directors on their boards. The names of certified directors shall also be sent through email to the stock exchanges and the SECP within 15 days of the conclusion of a DTP.
2. The institutions shall strive to meet or exceed all established standards, both domestically as well as internationally. The institution shall clearly lay down the objectives of the DTP.
3. The availability and proper utilization of high quality instructional material is essential for conducting effective DTP. The institutions shall ensure that adequate material including: relevant laws; case studies; syllabus; multimedia; reference texts; etc. are made available for instructional purposes. Special focus should be on developing case studies, which are relevant to the business environment of Pakistan and these should be included in the curriculum.
4. The institutions are encouraged to arrange research programs, seminars, conferences, workshops, etc. for promoting good corporate governance practices in Pakistan.

5. The potential of undertaking continuing professional development of the trainees through the institution's websites in the form of on-line, self-study courses may be considered by the institutions.