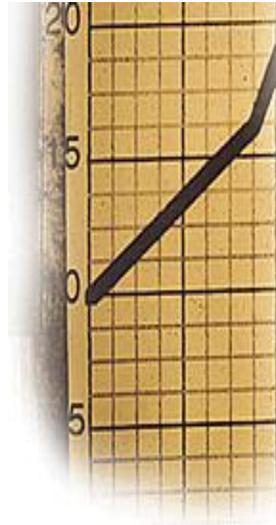




**PAKISTAN STOCK EXCHANGE LIMITED**

**TERMS  
OF  
REFERENCE**



**AUDIT  
COMMITTEE**



## REVISION HISTORY

Revision No.	Revision/Effective Date	Description
1	March 10, 2008	The Audit Committee reviewed the Charter and decided not to make any changes.
2	November 17, 2009	7.1-A-F 7.1-C 7.3.1 8.3.4
3	July 20, 2011	7.1-A-a-v 7.1-C The word 'General Manager' changed to 'Head' of' at various places.
4	October 27, 2014	1.1 2.1&2.2 3.2 4.1 5.1 - the quorum of the meeting is updated Responsibility with respect to Information Security added to Section 7 (Ref: 7.1 - D) 7.3.1 deleted Section 8 is updated to include relationship of Audit Committee with Information Security Office 9.1 sub-bullet (5)
5	January 11, 2016	Due to integration of stock exchanges, the word 'Karachi Stock Exchange Limited' changed to 'Pakistan Stock Exchange Limited' on the title page, page header and Section 1.
6	September 18, 2018	Various changes to align the TOR with new CCG regulations.
7	October 23, 2019	After the establishment of Risk Management Function, the 'Information Security' related aspects will now fall under the domain of the Risk Management Function. Accordingly, where ever necessary, the terms Information Security Office (ISO) and Chief Information Security Officer (CISO) are replaced with Risk Management Department (RMD) and Chief Risk Management Officer (CRMO). Few changes are made to bring the TOR in line with revised CCG Regulations 2019 such as in clause 2.2, CCG 2017 replaced with CCG 2019 and clause 5.3 is reworded as per revised CCG.



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## 1. General

- 1.1 The Audit Committee was formed by the Board of Directors of Pakistan Stock Exchange Limited [**the Exchange**]. The primary purpose of the Committee is to assist the Board in fulfilling its responsibility for oversight of the quality and integrity of the financial reporting, internal control, information security, risk management and corporate governance practices of the Exchange. It may also have such other duties as may from time to time be assigned to it by the Board.
- 1.2 These Terms of Reference [**ToR**] of Audit Committee have been approved by the Board of Directors [**the Board**] of the Exchange in its meeting held on 7<sup>th</sup> June 2007. The Audit Committee of the Board [**the Committee**] shall review and reassess these ToR when deemed necessary and recommend any proposed changes to the Board for approval.

## 2. Composition

- 2.1 The Committee shall have at least three (3) members comprising of non-executive directors and at least one (1) independent director. The Chairman of the Committee shall be an independent director, who shall not be the Chairman of the Board.
- 2.2 At least one (1) member of the Committee shall be a 'financial literate' as per the requirements of Listed Companies (Code of Corporate Governance) Regulations, 2019 [**the CCG**] and explained in the said Regulations.
- 2.3 The names of members of the Committee shall be disclosed in each annual report of the Exchange.

## 3. Responsibilities

- 3.1 The Committee shall maintain free and open communication with the external auditors, the internal auditors, Chief Financial Officer, Chief Risk Management Officer (CRMO) and the Exchange's management. In discharging its oversight role, the Committee is empowered to investigate any matter relating to the Exchange's accounting, auditing, risk management, information security, internal control, or financial reporting practices brought to its attention, and shall have full access to all the Exchange's books, records, facilities, and personnel.
- 3.2 In general, the Committee's responsibilities are divided in the following areas:
- a) Financial Reporting
  - b) Corporate Governance
  - c) Enterprise Level Risk Management and Control



- d) Information Security
- e) Others

### **A - Financial Reporting**

The responsibilities of Committee in the area of financial reporting are to provide oversight that financial reporting and related disclosures made by management are in accordance with the applicable laws and regulations including Regulations issued by the Securities and Exchange Commission of Pakistan, and they reasonably portray the Exchange's: 1) financial condition; 2) results of operations; 3) plans and long-term commitments.

The Chief Financial Officer will be the key resource, who will assist the Committee in achieving the above objectives.

The specific steps involved in carrying out this responsibility include:

- a) Oversight of the external auditors
  - i) Recommending to the Board the external auditors to be nominated, their audit fees and the proposals for change / termination, etc.
  - ii) Overseeing the external audit coverage, including
    - Review of audit engagement letters
    - Review of auditor performance
    - Monitoring of audit results
  - iii) On an annual basis, the Committee shall review and discuss with the external auditors:
    - All relationships the external auditors have with the Exchange to determine the external auditors' independence. For this purpose, they may also obtain written undertakings about their compliance with the ethical and professional standards.
    - The accuracy and reliability of financial information provided to them.
    - Their opinion on the financial statements of the Exchange.



- Review of non-audit services provided by the external auditors to ensure that such relationships and arrangements do not violate the requirements of the CCG and the standards of the accounting profession applicable in Pakistan.
  - 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).
  - Reviewing management letter issued by external auditors and management's response thereto.
  - Monitoring whether appropriate actions have been taken by concerned departments to implement recommendations contained in the management letter and reporting thereof to the Board.
- iv) The Committee shall ensure compliance with all other requirements of the CCG in relation to external auditors.
- v) Recommending to the Board for its approval "materiality level" that the Board may wish to monitor. The Committee may review the Materiality Levels whenever deemed necessary.
- b) Review and recommend to the Board for approval the Annual Budget of the Exchange.
- c) Examining the quarterly, half-yearly and annual financial statements of the Exchange, prior to their approval by the Board, 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 the CCG and other statutory and regulatory requirements; and
  - All related party transactions.
- d) Reviewing accounting policies to ensure that such policies are in compliance with the laws, regulations and applicable accounting standards.



- e) Determining appropriateness of measures to safeguard the Exchange's assets.
- f) Ascertaining that the internal control system of the Exchange (including financial and operational controls) are adequate and effective and reviewing the Exchange's statement on internal control system prior to endorsement by the Board.

### **B - Corporate Governance**

The responsibility of Committee with respect to corporate governance is to provide assurance that the Exchange is in reasonable compliance with pertinent laws and regulations, is conducting its affairs ethically, is maintaining effective controls against employee conflict of interest and fraud, and its communication to the stakeholders is effective. The Committee will also advise the Board on adoption and implementation of best practices on Corporate Governance.

The specific steps involved in carrying out this responsibility include:

- a) Monitoring compliance with the Code of Corporate Governance and relevant statutory requirements and identification of significant violations thereof.
- b) Reviewing current / pending litigation or regulatory proceedings bearing on corporate governance in which the Exchange is a party
- c) Advising the Board on adoption of best practices on Corporate Governance and review and monitoring of such practices after these have been approved by the Board for implementation.

### **C -Risk Management and Control**

The responsibility of the Committee for risk management and control includes an understanding and oversight of the Exchange's system of internal control. The Committee shall monitor the Enterprise Level Risk Management and Control processes of PSX to assess the effectiveness of risk management procedures and to present a report on the same to the Board. The Committee's responsibilities would include:

- a) Advising the Board on the adoption of a suitable framework for implementation and periodic evaluation of internal control and Enterprise Level Risk Management.
- b) Advising the Board on the approval of PSX policies on risk management and internal control;
- c) Monitoring and review of all material controls (financial, operational, compliance);



- d) Monitoring of management's implementation and review of internal control framework;
- e) Ensuring that an appropriate extent of disclosure of company's risk framework and internal control system is covered in Directors report;
- f) Monitoring the IAD's coverage and evaluation of internal control system through its periodic audits, including review of its significant findings and compliance;
- g) Review of management letters received from external auditors containing recommendations on internal control;

#### **D - Information Security**

The responsibility of the Audit Committee with respect to the Information Security would be to ensure that Information Security Office (ISO) remains an independent risk management entity that is designed to add value by identifying, assessing, and recommending information security improvements in the Exchange's operations.

The Audit Committee shall ensure that ISO helps the Exchange to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of Information Security, IT Governance, IT Controls and Continuity of Business.

The Information Security Head will be the key resource, who will assist the Committee in achieving the above objectives.

The Committee's responsibilities would be to oversee the ISO in establishing, implementing, and continuously improving the following:

- a) Information Security Management System (ISMS)
- b) Information Security Reviews / Assessments
- c) Information Security Management Reporting (ISMR)
- d) Security Operations function
- e) Information Technology Risk Management Framework (ITRMF)
- f) Facilitate Auditors during Information Security and IT audits
- g) Continuity of Business (CoB)
- h) Compliance with Information Security related Laws & Regulations



### **3.3 Other Responsibilities**

- 3.3.1 Reviewing the scope and extent of internal audit and risk management department (including plans, reporting framework & procedures) to ensure that the Internal Audit and Risk Management (including Information Security Office) have adequate resources and are appropriately placed within the Exchange.
- 3.3.2 Instituting any special projects, reviews, studies or other investigations, if required on any matters specified by the Board, in consultation with Chief Executive Officer and to consider remittance of any matter to the external auditors or to any other external body.
- 3.3.3 A Whistle-Blowing policy be in place for staff and management to report to the Committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures.
- 3.3.4 The Committee as part of its oversight responsibility shall consider major findings of any internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto.
- 3.3.5 Consideration of any other issue or matter as may be assigned by the Board.

## **4. Chair**

- 4.1 The Chairman of the Committee shall be an independent director, who shall not be the Chairman of the Board.
- 4.2 The Chairman shall preside over meetings of the Committee, and will maintain regular liaison with the Chief Executive Officer, Chief Financial Officer, Chief Risk Management Officer, Head of Internal Audit and the Engagement Partner of the Exchange's external auditors.
- 4.3 If the Chairman is not available then any Committee member may be elected by the members present, to chair the meeting.

## **5. Meetings and Attendance**

- 5.1 The Audit Committee shall meet at least once every quarter of the financial year to review the accounts and recommend to the Board for approval. A meeting of the Committee shall also be held, if requested by the external auditors, Chief Risk Management Officer or the Head of Internal Audit. The Chairman may, however, call meetings of the Committee as and when deemed necessary.



- 5.2 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 Committee at which issues, if any, relating to accounts and audit are discussed.
- 5.3 The Chief Executive Officer and the Chief Financial Officer shall not be the members of the Audit Committee but should be available to attend its meetings at the invitation of the Chairman of Audit Committee.
- 5.4 At least once a year, the Committee shall meet the external auditors without the Chief Financial Officer and the Head of Internal Audit being present.
- 5.5 The Committee shall also meet the Head of Internal Audit at least once in a year, without the Chief Financial Officer and the external auditors being present.

## 6. Quorum

- 6.1 The quorum for Committee meeting shall be the presence of at least Fifty Percent [50%] of the members of the Committee.

## 7. Removal and Vacancy

- 7.1 A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director.
- 7.2 The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with clause 2 of these ToR. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

## 8. Relationship of the Committee with the Internal Audit Department (IAD) and Risk Management Department (RMD)

- 8.1 The IAD and RMD will be the main resource, supporting the Committee and the Head of Internal Audit & Chief Risk Management Officer (CRMO) will have direct access to the Chairman of the Committee. This relationship enhances the stature and independence of the internal audit and risk management (including information security office) and its ability to contribute to corporate success.
- 8.2 The relationship between the Committee with IAD and RMD encompasses reporting relationships and oversight relationships, which includes:

### 8.2.1 Reviewing and Approving the IAD and RMD Charters

The IAD and RMD (including Information Security) Charter provides the functional and organizational framework within which the IAD and RMD will provide services to



management and to the Board's Committee. It defines the purpose, responsibility, authority, and reporting relationships for both IAD as well as RMD.

#### **8.2.2 Concurring in the Appointment or Removal of the Head of Internal Audit and Chief Risk Management Officer**

This will safeguard the independence of the IAD and RMD (including information security office) in the matters falling under the jurisdiction of the Board and the Committee.

#### **8.2.3 Reviewing Internal Audit and Risk Management Department Plans**

The Committee must satisfy that internal audit and risk management's (including information security office) objectives, goals, staffing and plans provide for adequate support of the Committee's own goals and objectives.

The Committee shall ensure that IAD and RMD have adequate number of quality people, advanced tools and other necessary resources to execute plans within agreed time frame.

It is the responsibility of Managing Director of the Exchange to provide required resources including sufficient number of people possessing relevant knowledge, skills and competence to IAD and to the RMD.

#### **8.2.4 Reviewing Internal Audit Findings & Risk Management Reviews**

All major audit findings are reported by Head of Internal Audit to the Audit Committee on a quarterly basis. Internal audit reports are submitted to Managing Director with copy to concerned head of department. The Audit Committee, if deemed necessary, may require to forward a copy of the internal audit report or a relevant audit finding, to relevant sub-committee of the Board through the Secretary of that Committee.

Risk Management (including Information security) reports will be produced and submitted by Risk Management Department to the Audit Committee as well as the Executive Management for their information and perusal.

#### **8.2.5 Reviewing Status of Implementation of IAD and RMD Recommendations**

The Committee shall review the status of implementation of audit reports, internal control reports, information security reports and management's response thereto.

#### **8.2.6 Audit and Risk Management (including Information Security) related Projects**

The Committee may advise IAD to perform special studies, investigations or other services in matters of interest or concern to the Committee. Such projects could include:



- Investigation of potential or suspected fraud or other irregularities.
- Exchange's compliance with laws and regulations.
- Evaluation of external auditors.

The Committee may advise RMD to perform adhoc information security reviews and investigations as and when deemed necessary.

### 8.2.7 Requesting Quality Assurance Reviews

The Institute of Internal Auditors (IIA) recommends that quality assurance reviews of the internal audit function be performed on a regular basis; these are in the form of "Internal Assessments" and "External Assessments". Regular quality assurance reviews will provide assurance to the Committee and management that internal auditing activities conform to the IIA's International Standards for the Professional Practice of Internal Auditing.

## 9. Experts and Advisors

- 9.1 The Committee may engage and retain outside counsel, auditors or other advisors as deemed necessary.

## 10. Secretary and Minutes

- 10.1 The Board or the Committee shall appoint a Secretary of the Committee who shall either be the Company Secretary or the Head of Internal Audit.

- 10.2 The Secretary shall be responsible to assist the Committee in discharging its responsibilities under these ToR. These requirements include but are not limited to:

- Scheduling meetings, preparing agendas, and circulating minutes of meetings of the Committee to all members within a fortnight. The secretary shall also be responsible for maintaining records of minutes and other record of meetings and activities of the Committee.
- Ensuring that the recommendations of the Committee for appointment of retiring auditors or otherwise are included in the Directors' Report.
- Ensuring that the external auditors have attended at least once a year the Committee's meeting without the Chief Financial Officer and the Head of Internal Audit being present.



- Ensuring that the Head of Internal Audit and other members of the internal audit function have attended at least once a year the Committee's meeting without the Chief Financial Officer and the external auditors being present.
- Arranging meeting of the Committee if it is requested by the external auditors or the Head of Internal Audit or by the Chief Risk Management Officer
- Assisting the Committee in the efficient and effective discharge of its responsibilities including compliance with the requirements relating to the Committee specified in the CCG issued by Securities and Exchange Commission of Pakistan.

## **11. Executive Management**

- 11.1 The Chief Executive Officer, senior management and all other employees of the Exchange shall extend their full support and assist the Committee in the discharge of its responsibilities under these ToR.

## **12. Communication**

- 12.1 These ToR will be communicated to all concerned personnel of the Exchange.