

# Securities and Exchange Commission of Pakistan

Islamabad, the 3<sup>rd</sup> May, 2013

In exercise of the powers conferred by section 506B of the Companies Ordinance, 1984 (XLVII of 1984) read with rule 24 of the Public Sector Companies (Corporate Governance) Rules, 2013, the Securities and Exchange Commission of Pakistan is pleased to issue the Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013.

## **Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013**

**1. Short title, application and commencement.-** (1) These guidelines may be called Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013.

(2) These guidelines shall apply to all Public Sector Companies, as defined in the Rules.

(3) These shall come into force from the financial year ending on or after June 30, 2014.

**2. Publication and authentication of Statement of Compliance -** (1) Every public sector company shall publish and circulate a statement of compliance with the Public Sector Companies (Corporate Governance) Rules, 2013, in the form set out in Schedule I to the Guidelines, alongwith its annual report to set out the status of its compliance therewith.

(2) The statement of compliance shall be signed either by the chief executive jointly with the chairman of the board or in case of his absence, with any of the independent non-executive directors.

(3) In case of non-compliance with any of the provisions of the Rules, the reasons for non-compliance along with a line of action for complying with the provision in future, shall be provided in the Statement of Compliance, in the form set out in Schedule II to the Guidelines.

(4) The external auditors of the company, before publication of the Statement of Compliance, shall review the same and certify compliance through review report to the members, as set out <sup>1</sup>[in Schedule III to the Guidelines, and the following details :

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<sup>1</sup> Substituted for the words "in Schedule III to the Guidelines" in terms of the approval granted by the Commission on September 22, 2015.

- (i) In case of listed Public Sector Companies, which are also subject to the provisions of the Code of Corporate Governance, the external auditors would:
    - a. Issue a clean review report in the form set out in Schedule III (i), in cases where management has accepted and disclosed the non-compliances in the Statement of Compliance;
    - b. Issue a Modified Review Report, in the form set out in Schedule III (ii), in cases where the non-compliance is on the part of the Company but management is neither accepting nor disclosing the fact;
  - (ii) In case of unlisted Public Sector Companies, the external auditors would:
    - a. Issue a Clean Review Report in the form set out in Schedule III (iii), in cases where management has accepted and disclosed the non-compliances in the Statement of Compliance;
    - b. Issue a Modified Review Report, in the form set out in Schedule III (iv), in cases where the non-compliance is on the part of the Company but management is neither accepting nor disclosing the fact.]
- (5) Notwithstanding anything contained in the statement, any disclosure required under any other directive, code, regulation or rules shall be made in the statement.

**SCHEDULE I**

**[See paragraph 2(1)]**

**Statement of Compliance with the  
Public Sector Companies (Corporate Governance) Rules, 2013**

**Name of company .....**

**Name of the line ministry .....**

**For the year ended.....**

I. This statement is being presented to comply with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called “the Rules”) issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

II. The company has complied with the provisions of the Rules in the following manner:

S. No.	Provision of the Rules	Rule no.	Y	N												
			Tick the relevant box													
1.	The independent directors meet the criteria of independence, as defined under the Rules.	<b>2(d)</b>														
2.	The Board has the requisite percentage of independent directors. At present the board includes: <table border="1" data-bbox="285 499 1081 793"> <thead> <tr> <th>Category</th> <th>Names</th> <th>Date of appointment</th> </tr> </thead> <tbody> <tr> <td>Independent Directors</td> <td></td> <td></td> </tr> <tr> <td>Executive Directors</td> <td></td> <td></td> </tr> <tr> <td>Non-Executive Directors</td> <td></td> <td></td> </tr> </tbody> </table>	Category	Names	Date of appointment	Independent Directors			Executive Directors			Non-Executive Directors			<b>3(2)</b>		
Category	Names	Date of appointment														
Independent Directors																
Executive Directors																
Non-Executive Directors																
3.	A casual vacancy occurring on the board was filled up by the directors within ninety days.	<b>3(4)</b>														
4.	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	<b>3(5)</b>														
5.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Ordinance.	<b>3(7)</b>														
6.	The chairman of the board is working separately from the chief executive of the Company.	<b>4(1)</b>														
7.	The chairman has been elected from amongst the independent directors.	<b>4(4)</b>														
8.	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.	<b>5(2)</b>														
9.	(a) 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, including posting the same on the company's website. (Address of website to be indicated _____)  (b) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	<b>5(4)</b>														
10.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety;	<b>5(5)</b>														

	objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.			
11.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	<b>5(5)(b)(ii)</b>		
12.	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the company.	<b>5(5)(b)(vi)</b>		
13.	(a) The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.  (b) A Committee has been formed to investigating deviations from the company's code of conduct.	<b>5(5)(c)(ii)</b>		
14.	The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services <sup>2</sup> .	<b>5(5)(c)(iii)</b>		
15.	The board has developed a vision or mission statement, 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.	<b>5(6)</b>		
16.	The board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and has submitted its request for appropriate compensation to the Government for consideration.	<b>5(8)</b>		
17.	(a) The board has met at least four times during the year. (b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. (c) The minutes of the meetings were appropriately recorded and circulated.	<b>6(1)</b> <b>6(2)</b> <b>6(3)</b>		
18.	The board has carried out performance evaluation of its members, including the chairman and the chief executive, on the basis of a process, based on specified criteria, developed by it. The board has also monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis*. * Strike out whichever is not applicable	<b>8</b>		
19.	The board has reviewed and approved the related party transactions	<b>9</b>		

<sup>2</sup> The words "in accordance with the PPRA Rules" omitted in terms of the approval granted by the Commission on September 22, 2015

	placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.																					
20.	The board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, and has placed the annual financial statements on the company's website. Monthly accounts were also prepared and circulated amongst the board members.	<b>10</b>																				
21.	All the board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.	<b>11</b>																				
22.	<p>(a) The board has formed the requisite committees, as specified in the Rules.</p> <p>(b) The committees were provided with written term of reference defining their duties, authority and composition.</p> <p>(c) The minutes of the meetings of the committees were circulated to all the board members.</p> <p>(d) The committees were chaired by the following non-executive directors:</p> <table border="1" data-bbox="284 1039 1079 1606"> <thead> <tr> <th>Committee</th> <th>Number of members</th> <th>Name of Chair</th> </tr> </thead> <tbody> <tr> <td>Audit Committee</td> <td></td> <td></td> </tr> <tr> <td>Risk Management Committee</td> <td></td> <td></td> </tr> <tr> <td>Human Resources Committee</td> <td></td> <td></td> </tr> <tr> <td>Procurement Committee</td> <td></td> <td></td> </tr> <tr> <td>Nomination Committee</td> <td></td> <td></td> </tr> </tbody> </table>	Committee	Number of members	Name of Chair	Audit Committee			Risk Management Committee			Human Resources Committee			Procurement Committee			Nomination Committee			<b>12</b>		
Committee	Number of members	Name of Chair																				
Audit Committee																						
Risk Management Committee																						
Human Resources Committee																						
Procurement Committee																						
Nomination Committee																						
23.	The board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, with their remuneration and terms and conditions of employment, and as per their prescribed qualifications.	<b>13/14</b>																				
24.	The company has adopted International Financial Reporting Standards notified by the Commission under clause (i) of sub-section (3) of section 234 of the Ordinance.	<b>16</b>																				
25.	The directors' report for this year has been prepared in compliance with	<b>17</b>																				

	the requirements of the Ordinance and the Rules and fully describes the salient matters required to be disclosed.															
26.	The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.	<b>18</b>														
27.	A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place. The annual report of the company contains criteria and details of remuneration of each director.	<b>19</b>														
28.	The financial statements of the company were duly endorsed by the chief executive and chief financial officer, before approval of the board.	<b>20</b>														
29.	<p>The board has formed an audit committee, with defined and written terms of reference, and having the following members:</p> <table border="1" data-bbox="284 716 993 903"> <thead> <tr> <th>Name of member</th> <th>Category<sup>i</sup></th> <th>Professional background<sup>ii</sup></th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>The chief executive and chairman of the Board are not members of the audit committee.</p>	Name of member	Category <sup>i</sup>	Professional background <sup>ii</sup>										<b>21</b>		
Name of member	Category <sup>i</sup>	Professional background <sup>ii</sup>														
30.	The board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee, and which worked in accordance with the applicable standards.	<b>22</b>														
31.	The company has appointed its external auditors in line with the requirements envisaged under the Rules.	<b>23</b>														
32.	The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	<b>23(4)</b>														
33.	The external auditors have not been appointed to provide non-audit services and the auditors have confirmed that they have observed applicable guidelines issued by IFAC in this regard.	<b>23(5)</b>														
34.	The company has complied with all the corporate and financial reporting requirements of the Rules.															

**Signatures**  
**(Names in block letters)**  
**CEO & Chairman/Independent Director**

## SCHEDULE II

**See Paragraph 2(3)**

### **Explanation for Non-Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013**

We confirm that all other material requirements envisaged in the Rules have been complied with [except for the following, toward which reasonable progress is being made by the company to seek compliance by the end of next accounting year]:<sup>iii</sup>

Sr. No.	Rule/sub-rule no.	Reasons for non-compliance	Future course of action

**Signatures**  
**(Names in block letters)**  
**CEO & Chairman/Independent Director**

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<sup>i</sup> Indicate whether an executive, non-executive or independent director.

<sup>ii</sup> Indicate professional background including finance, accounting, law, business management, etc.

<sup>iii</sup> Delete if not applicable

### <sup>3</sup>SCHEDULE III(i)

[See Paragraph 2(4)(i)(a)]

## **Review Report to the Members On the Statements of Compliance with the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013 (both herein referred to as 'Codes') prepared by the Board of Directors of \_\_\_\_\_ for the year ended \_\_\_\_ to comply with the requirements of Listing Regulation No(s) \_\_\_ of the Stock Exchange(s) where the Company is listed.

The responsibility for compliance with the Codes is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Codes. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Codes.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Codes require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the 'Statement of Compliance' does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Codes as applicable to the Company for the year ended \_\_\_\_.

**I** Further, we highlight below instance(s) of non-compliance with the requirement(s) of the Codes as reflected in the note/ paragraph reference where it/these is/are stated in the Statement of Compliance:

#### Note/paragraph

	<u>Reference</u>	<u>Description</u>
i.	_____	_____
ii.	_____	_____
iii.	_____	_____

Chartered Accountants

Place:

Date:

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<sup>3</sup> Schedule III substituted in terms of the approval granted by the Commission on September 22, 2015.

***1 This part is applicable to Public Sector Companies which are also listed and have non-compliances identified in the Statement of Compliance by the management:***

Required when the Company's Statement of Compliance refers to a non-compliance. The statutory auditors of a listed Public sector company shall ensure that any non-compliance with the requirements of the Code of Corporate Governance 2012 as referred to in the Statement of Compliance is also highlighted in their review report. In a situation where the Statement of Compliance does not mention the non-compliance with a material requirement of the Code of Corporate Governance the statutory auditor shall then issue a modified report, a format for which is attached.

## **SCHEDULE III(ii)**

**[See Paragraph 2(4)(i)(b)]**

### **Review Report to the Members On the Statements of Compliance with the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013 (both herein referred to as 'Codes') prepared by the Board of Directors of \_\_\_\_\_ for the year ended \_\_\_\_ to comply with the requirements of Listing Regulation No(s) \_\_ of the Stock Exchange(s) where the Company is listed.

The responsibility for compliance with the Codes is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Codes. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Codes.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Codes require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Following instance(s) of non-compliance with the requirement(s) of the Codes were observed which are not stated in the Statement of Compliance:

i .....

ii .....

iii .....

Based on our review, except for the above instance(s) of non-compliance, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Codes as applicable to the Company for the year ended \_\_\_\_\_.

**1** Further, we highlight below instance(s) of non-compliance with the requirement(s) of the Codes as reflected in the note/ paragraph reference where it/these is/are stated in the Statement of Compliance:

**Note/paragraph**

	<b><u>Reference</u></b>	<b><u>Description</u></b>
i.	_____	_____
ii.	_____	_____
iii.	_____	_____

Chartered Accountants

Place:

Date:

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***1 This part is applicable to Public Sector Companies which are also listed and have non-compliances identified in the Statement of Compliance by the management:***

Required when the Company's Statement of Compliance refers to a noncompliance. The statutory auditors of a listed Public sector company shall ensure that any non-compliance with the requirements of the Code of Corporate Governance 2012 as referred to in the Statement of Compliance is also highlighted in their review report. In a situation where the Statement of Compliance does not mention the non-compliance with a material requirement of the Code of Corporate Governance the statutory auditor shall then issue a modified report, a format for which is attached.

## **SCHEDULE III(iii)**

**[See Paragraph 2(4)(ii)(a)]**

### **Review Report to the Members On the Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors of \_\_\_\_\_ for the year ended \_\_\_\_\_.

The responsibility for compliance with the Rules is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Rules.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Rules requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Company for the year ended \_\_\_\_\_.

Auditor

Place:

Date:

**SCHEDULE III(iv)**

**[See Paragraph 2(4)(ii)(b)]**

**Review Report to the Members  
On the Statement of Compliance with the Public Sector Companies (Corporate  
Governance) Rules, 2013**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors of \_\_\_\_\_ for the year ended \_\_\_\_\_.

The responsibility for compliance with the Rules is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Rules.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Rules requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Following instances of non-compliance with the requirement(s) of the Rules was/were observed which is/are not stated in the Statement of Compliance:

- i .....
- ii .....
- iii .....

Based on our review, except for the above instance(s) of non-compliance, nothing has come to our attention which causes us to believe that the 'Statement of Compliance' does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Company for the year ended \_\_\_\_\_.

Auditor

Place:

Date: