

AHMAD HASSAN TEXTILE MILLS LIMITED

TERMS OF REFERENC OF AUDIT COMMITTEE

ISSUED BY: BOARD OF DIRECTORS

AUDIT COMMITTEE

- a) The board of directors of every company shall establish an audit committee of at least of three members comprising of non-executive directors and at least one independent director.
- b) Chairman of the committee shall be an independent director, who shall not be the chairman of the board.
- c) The board shall satisfy itself such that at least one member of the audit committee qualifies as “financially literate”.

SECRETARY

The Audit Committee of a company shall appoint a secretary of the committee who shall either be the company secretary or head of internal audit.

ATTENDANCE AT MEETINGS

No one other than the audit committee members shall be entitled to attend audit committee meetings.

The chairman, other non-executive directors, CEO, CFO, head of internal audit, representatives of the external auditor, or other persons shall attend meetings only at the invitation of the committee.

The CFO, the head of internal audit and a representative of the external auditors 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.

FREQUENCY OF MEETINGS

Meetings shall be held not less than once in each quarter of a financial year (to coincide with key dates in the company's financial reporting cycle). The external auditor or the internal auditor may request a meeting if they consider that one is necessary.

And it is encouraged that there should be at least one meeting a year, or part thereof, where the audit committee meets the external and internal auditors without executive board members present. This need not be the same meeting.

AUTHORITY

The committee is authorized by the board to:

- a) Investigate any activity within its terms of reference;
- b) Seek any information that it requires from any employee of the company and all employees are directed to co-operate with any request made by the committee

TERMS OF REFERENCE

The Board of Directors of the Company shall determine the terms of reference of the Audit Committee. 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 Company in addition to audit of its financial statements., the Board of Directors shall act in accordance with 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 Company's assets;
- (b) Review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the board of directors, focusing on:
 - Major judgmental areas;
 - Significant adjustments resulting from the audit;
 - The going-concern assumption;
 - Any changes in accounting policies and practices;
 - Compliance with applicable accounting standards; and
 - Compliance with listing regulations and other statutory and regulatory requirements.
 - All 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 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 Company;
- (h) Consideration of major findings of internal investigations and management's response thereto;
- (i) Ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;
- (j) Review of the Company's statement on internal control systems prior to endorsement by the board of directors;
- (k) Instituting special projects, value for money studies or other investigations on any matter specified by the board of directors, in consultation with the chief executive and to consider remittance of any matter to the external auditors or to any other external body;
- (l) Determination of compliance with relevant statutory requirements;
- (m) Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof;
- (n) review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;
- (o) recommend to the board of directors the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements. The board of directors shall give due consideration to the recommendations of the audit committee and where it acts otherwise it shall record the reasons thereof.
- (p) Consideration of any other issue or matter as may be assigned by the Board of Directors.

REPORTING PROCEDURE

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

INTERNAL AUDIT

- There shall be an internal audit function in the Company. The head of internal audit shall have access to the chair of the Audit Committee. 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 Company. However, due care should be observed 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 addition, these

persons must be involved in the internal audit function on a full time basis so as to achieve the objectives of the said audit.

While outsourcing the function, the company must not, however, appoint its existing external auditors as internal auditors.

- The Company 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

- The company shall not appoint external auditors a firm of auditors which has not been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan.
- The Company shall not appoint as external auditors a firm of auditors which firm or a partner of which firm 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.
- The Board of Directors of a 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 retiring auditors or otherwise shall be included in the Directors' Report. In case of a recommendation for change of external auditors before the elapse of three consecutive financial years, the reasons for the same shall be included in the Directors' Report.
- The Company shall not 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 Company.
- The Company shall appoint a person as the CEO, the CFO, an internal auditor or a director of the Company who was a partner of the firm of its external auditors (or an employee involved in the audit of the Company) at any time during the two years preceding such appointment or is a close relative, i.e. spouse, parents, dependents and non-dependent children, of such partner (or employee).
- The Company shall require external auditors to furnish a Management Letter to its Board of Directors not later than 45 days from 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.
- The Company shall require the engagement partner of the firm of its external auditors to attend the Annual General Meeting at which audited accounts are placed for consideration and approval of shareholders. Provided that to avoid conflict of interest, such partner after being given an opportunity to be heard, shall absent himself from the meeting when the appointment or removal of external auditors is discussed.

DISCHARG OF RESPONSIBILITIES.

Where disagreements between the audit committee and the board cannot be resolved, the audit committee shall report such an issue to the shareholders as part of the report on its activities in the company's annual report.

If the board does not accept the audit committee's recommendation regarding the appointment, reappointment and removal of the external auditor, the audit committee shall include a statement explaining its recommendation and reasons why the board has taken a different stance in the annual report.

The audit committee chairman shall attend the AGM and shall answer questions, through the chairman of the board, on the audit committee's activities and its responsibilities.

**CHAIRMAN
BOARD OF DIRECTORS**

MIAN MUHAMMAD JAVED