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ZIL Limited

AUDIT COMMITTEE CHARTER

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February 2009
Revision date: 29 August 2016

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REVISION SUMMARY

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Approval Date : February 26, 2009

Approved By : The Board of Directors in the Meeting Held on February 26, 2009

Revision No.	Revision Date	Page #	Revision Nature	Effective Date	Initials
1	Aug 29 th , 2016	4	Incorporation of changes of Code of corporate governance relating to Audit committee.	29/08/2016	AR

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1. INTRODUCTION

- 1.1 This Audit Committee Charter (Charter) has been approved by the Board of Directors (the BOD) of ZIL Limited in its meeting held on February 26, 2009. The Audit Committee of the Board (the Committee) shall review and reassess this Charter from time to time and recommend proposed changes to the BOD for approval.

2. ROLE AND INDEPENDENCE

- 2.1 The primary purpose of the Committee is to assist the BOD in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the organization's process for monitoring compliance with laws and regulations and the code of conduct.
- 2.2 Its primary responsibility is to safeguard the interests of ZIL's shareholders and other stakeholders by ensuring sound internal controls, compliance with the best practices including the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP).
- 2.3 Its specific responsibility is to review quarterly and annual financial statements before submission to the BOD. The Committee generally acts as liaison between the auditors and the BOD and its activities include the review of the nomination of the auditors, overall scope of the audit, results of the audit, internal financial controls and financial information for publication.
- 2.4 It is also responsible to monitor organizational activities to ensure that adequate internal controls exist to implement the policies of the BOD. Further, it will ensure compliance with best practices as laid down by SECP.
- 2.5 The Committee shall maintain free and open communication with the external auditors, the internal auditors, Chief Financial Officer and the ZIL's management. In discharging its oversight role, the Committee is empowered to investigate any matter relating to the ZIL's accounting, auditing, internal control or financial reporting practices brought to its attention, and shall have full access to all the ZIL's books, records, facilities, and personnel. The Committee may retain outside counsel, auditors or other advisors as deemed necessary.
- ## 3. COMPOSITION
- 3.1 The Committee, a standing committee of the BOD, shall comprise of not less than three members, including the Chairman of the Committee. The BOD will appoint members as well as Chairman of the Committee. The Board shall satisfy itself such that at least one member of the committee has relevant financial skills/expertise and experience.

3.2 Members of the Committee shall be from among the non-executive directors of the company and the Chairman shall preferably be a non-executive director, who shall not be the chairman of the Board

3.3 The Chairman shall preside over meetings of the Committee, and will maintain regular liaison with the Chief Executive Officer, Chief Financial Officer, internal auditors and the engagement partner of ZIL's external auditors.

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4. FREQUENCY OF MEETINGS

4.1 The Committee shall meet at least once in every quarter of the financial year. These meetings shall be held prior to the approval of interim results of the company by BOD and before and after completion of external audit. A meeting of the Committee shall also be held, if requested by the external auditors or Head of Internal Audit.

5. QUORUM FOR MEETINGS

5.1 The quorum for Committee meeting shall be at least two members.

5.2 If the Chairman is not available then any Committee member may be elected by the members present, to chair the meeting.

6. ATTENDANCE AT MEETINGS

6.1 The CFO and the head of Internal Audit shall attend meetings of the Committee at which issues relating to accounts and audit are discussed. At the time of review of half yearly and annual accounts, a representative of the external auditors shall attend the meeting during discussions on the accounts and Audit.

6.2 At least once a year, the Committee shall meet the external auditors without the CFO and the Head of Internal Audit being present.

6.3 The Committee shall also meet the Head of Internal Audit at least once in a year, without the CFO and the external auditors being present.

6.4 Chairman of the Audit committee and engagement partner of the external auditor or in his absence any other partner designated by the audit firm shall be present at the AGM for necessary feed back to the shareholders.

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6.5 CEO shall attend the meeting at least once in a year. However, the Committee may request the CEO to attend any specific meeting when the Committee deems it fit.

7. RESPONSIBILITIES

7.1 In general, the Committee's responsibilities are divided in the following important areas:

- A. Financial Reporting
- B. Internal Controls
- C. Compliance
- D. Oversight of Internal Audit Function
- E. Other Responsibilities

A. Financial Reporting

The responsibilities of the 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 Company'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 BOD 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 Company 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 Company.
 - Review of non-audit services provided by the external auditors to ensure that such relationships and arrangements do not violate the requirements of the Code of Corporate Governance 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 the requirements of the Code of Corporate Governance in relation to external auditors.
- v) Recommending to the BOD for its approval and annual review of "materiality level" that the Board may wish to monitor.
- b) Examining the quarterly, half-yearly and annual financial statements of the Company, 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, and
 - Compliance with applicable accounting standards, listing regulations and other statutory and regulatory requirements.
 - Significant related party transactions.
- c) Reviewing accounting policies to ensure that such policies are in compliance with the laws, regulations and applicable accounting standards.

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- d) Reviewing significant accounting and reporting issues, including complex and unusual transactions and highly judgmental areas and recent professional & regulatory pronouncements and understand their impact on the financial statements.
- e) Determining appropriateness of measures to safeguard Company's assets.
- f) Reviewing the Company's statement on internal control systems and statement of compliance with code of corporate governance prior to endorsement by the Board.

B – Corporate Governance

The responsibility of Committee with respect to corporate governance is to provide assurance that the Company 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) Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflict of interest, and the investigation of misconduct and fraud. The Committee should ensure that a "Statement of Ethics and Business Practices" is prepared and circulated annually by the Board to establish a standard of conduct for directors and employees, and that each director and employee has signed such statement in acknowledgement of his understanding and acceptance of the standard of conduct.
- b) Reviewing current / pending litigation or regulatory proceedings bearing on corporate governance in which the Company is a party.
- c) Reviewing significant cases of employee conflict of interest, misconduct, or fraud.
- d) Ensuring effective implementation of the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan.
- e) 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

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The responsibility of the Committee for risk management and control includes an understanding and oversight of the Company's system of internal control including its key risk management processes and systems. 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 risk management system.
- b) Monitoring the internal auditors' coverage and evaluation of internal control system through its periodic audits, including review of its significant findings and compliance.
- c) Review of management letters received from external auditors containing recommendations on internal control.

D. Oversight of Internal Audit Function

The Internal Audit Activity (IAA), presently outsourced to Deloitte Yousuf Adil & Co. Chartered Accountants will be the main resource supporting the Committee. The lead Internal Auditor will have direct access to the Chairman of the Committee. This relationship enhances the stature and independence of the internal auditors and their ability to contribute to corporate success. In the event of outsourcing company shall also appoint or designate a fulltime employee other CFO, as Head of Internal Audit, to act as coordinator between firm providing internal audit service and the Board.

The relationship between the Committee and the internal auditors encompasses reporting relationships and oversight relationships, which includes:

- Reviewing internal audit plans satisfying that internal audit scope and objectives and audit schedules provide for adequate support of the Committee's own goals and objectives.
- Reviewing internal audit findings presented by internal auditors on a quarterly basis.
- Reviewing the status of implementation of internal auditors' recommendations.
- Advising the internal auditors 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.
 - Company's compliance with laws and regulations.

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- Requesting Quality Assurance Reviews based on the Institute of Internal Auditors (IIA) recommendation 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.

F. Other Responsibilities

- Perform other activities related to this charter as requested by the Board of Directors.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of this charter annually, requesting Board’s approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the Audit Committee’s and individual members’ performance on a regular basis.

8. REPORTING RESPONSIBILITIES

- Regularly report to the Board about Committee’s activities, issues, and related recommendations.
- Provide an open avenue of communication between the internal auditors, the external auditors, and the BOD.
- Report annually to the shareholders, describing the Committee’s composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the Company issues that relate to Committee’s responsibilities.

9. SECRETARY OF THE COMMITTEE AND HIS RESPONSIBILITIES

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~~9.1 The Committee shall appoint a secretary of the Committee who shall be responsible to assist the Committee in discharging its responsibilities under this charter. 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 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 internal auditors being present.
- Ensuring that the internal auditors have attended at least once a year the Committee's meeting without the Chief Financial Officer and the external auditors being present.
- Ensuring that internal auditors have met twice in a year with external auditors i.e. semi annually and at year ends.
- Ensuring that the CEO has attended the meeting once in a year.
- Arranging meeting of the Committee if it is requested by the external auditors or the internal auditors.
- Assisting the Committee in the efficient and effective discharge of its responsibilities including compliance with the requirements relating to the Committee specified in the Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan.
- Regularly following up and ensuring the implementation of the decisions made by the Committee.

10. EXECUTIVE MANAGEMENT SUPPORT

10.1 The Chief Executive Officer, senior management and all other employees of Company shall extend their full support and assist the Committee in the discharge of its responsibilities under this Charter.

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DEFINITIONS

Independence

(Majority of the Committee members shall meet the independence requirements for serving on the Committee)

Members of the Committee shall be considered independent if they have no relationship to the Company that may interfere with the exercise of their independence from management of the Company. Examples of such relationships include:

- A director being employed by the Company or any of its affiliates for the current year or any of the past two years.
- A director accepting any compensation from the Company or any of its affiliates other than compensation for Board service or benefits. A director being a member of the immediate family of an individual who is, or has been in any of the past two years, employed by the Company or any of its affiliates as an executive officer.

Depending upon the circumstances, the above independence criteria may be relaxed with the approval of the Board of Directors.

Financial Literacy

A basic financial literacy means "the ability to read and understand fundamental financial statements, including Company's balance sheet, income statement, and cash flow statement."

Financially Literate

A person who has the following attributes:

- An understanding of generally accepted accounting principles and financial statements;
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- Experience of analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the financial statements, or experience actively supervising one or more persons engaged in such activities; and
- An understanding of internal controls and procedures for financial reporting.