

**Government of Pakistan
Finance Division
Central Monitoring Unit**

No.CMU/FY2014/REG/001

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Subject: REGULATIONS ON AUDIT COMMITTEE, RISK MANAGEMENT AND INTERNAL CONTROLS FOR SOEs

In accordance with the requirements of the State-Owned Enterprises (Governance and Operations) Act, 2023 and the SOE Ownership and Management Policy, 2023, CMU has prepared the Regulations on Audit Committee, Risk Management, and Internal Controls for the State Owned Enterprises (SOEs).

2. These regulations establish a standardized framework for SOEs to ensure effective governance, transparency, and accountability. The document includes comprehensive guidelines on forming and operating an Audit Committee, implementing a robust risk management framework, and maintaining adequate internal controls to mitigate operational, financial, and compliance risks.
3. A copy of the guidelines is enclosed, for adoption by the State-Owned Enterprises.

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CMU REGULATIONS ON:

**Audit Committee, Internal Controls and
Risk Management**

Audit Committee, Internal Control, and Risk Management Regulations

- A. In pursuance of Section 4(3)(iv) of the State-Owned Enterprises (Governance and Operations) Act, 2023 (the SOE Act) and Annexure 6 of the State-Owned Enterprises (Ownership and Management) Policy, 2023 (the Policy), the following Regulations are being issued:
- B. These regulations shall be called the State-Owned Enterprises (Audit Committee, Internal Control and Risk Management) Regulations, 2024.
- C. These regulations shall apply to all State-Owned Enterprises as defined in the SOE Act.
- D. These regulations shall come into force immediately.

1. Audit Committee

A. Establishment of Audit Committee

- 1. The Board of each State-Owned Enterprise shall establish an audit committee of the Board which shall be headed by an independent member and will include member(s) who are financially literate.
- 2. The Chairman of the Board and CEO shall not be members of the audit committee.

B. Audit Committee Meetings

- 1. The audit committee shall meet at least once every quarter of each financial year. These meetings shall be held prior to the approval of interim results by the Board of Directors and after completion of the external audit.
- 2. A meeting of the audit committee shall also be held if requested by the external auditors, or the Chief Internal Auditor (CIA), or a member of the audit committee.
- 3. The Chief Executive Officer and the Chief Financial Officer may attend a meeting of the audit committee by invitation.

4. The audit committee shall meet the external auditors, without the Chief Financial Officer and the Chief Internal Auditor being present, at least once a year.
5. The audit committee shall meet the head of internal audit (CIA Chief Internal Auditor) and other members of the internal audit function, without the Chief Financial Officer and the external auditors being present, at least once a year.

C. Functions of the Audit Committee

1. Oversee financial reporting to ensure that financial statements are accurate, transparent, and compliant with relevant laws and regulations.
2. Approval of appointment of external auditors, their fees and other related matters.
3. Coordinate with external auditors to ensure accurate financial disclosure and implement mechanisms to prevent fraud and mismanagement of public resources and SOE assets.
4. Approve the internal audit plan and ensure the independence of internal auditors.
5. Regularly review audit reports and recommendations to ensure that audit processes are thorough and aligned with the SOE's needs.
6. Ensure that regular audits are conducted, with findings timely reported.
7. Oversee whistle blowing mechanisms and fraud prevention efforts.
8. Review half yearly and annual financial statements of the SOEs prior to their approval by the Board.
9. Conducting investigations where necessary on a confidential basis on deviations from code of conduct, internal controls or other matters deemed necessary.
10. Evaluate and strengthen internal controls to enhance operational efficiency and accountability.
11. Oversee risk management strategies, ensuring the SOE is prepared to address regulatory risks, political influences, and other challenges. This includes reviewing risk management policies and internal control systems.
12. Ensure that the SOE complies with applicable laws (**including the SOE Act 2023**), regulations, and internal policies.

13. Develop and enforce codes of conduct to promote ethical behavior within the organization.

D. Assessment of Audit Committee Performance

1. The Board of Directors shall evaluate the performance of the audit committee through a formal and effective mechanism put in place for an annual evaluation of the board's own performance, members of Board and of its committees. The review shall be disclosed in the SOE's annual report.

A sample review questionnaire is at **APPENDIX 1**.

2. Internal Controls

A. Importance of Internal Controls for SOEs

1. State-Owned Enterprises (SOEs) are required to establish robust internal control systems designed to ensure compliance with legal and regulatory requirements, safeguard assets, and uphold financial integrity. These controls should be comprehensive, supporting accurate and transparent financial reporting to provide stakeholders with a clear and reliable view of the organization's financial health. Additionally, effective internal controls must minimize operational and financial risks by proactively identifying and addressing potential vulnerabilities within processes. Beyond risk mitigation, these controls are fundamental in fostering a culture of accountability, where all levels of the organization are aligned with governance standards and ethical practices, thereby enhancing public trust and organizational efficiency.

B. Internal Control Framework

1. SOEs may adopt a robust framework to build a comprehensive internal control system, focusing on a strong control environment, risk assessment, control activities, information and communication, and monitoring. Any of the following frameworks may be used as per the requirement of the organization while remaining vigilant to regulatory updates and emerging requirements, regularly monitoring changes that may impact the SOE's operations:
 - a. COSO ERM
 - b. ISO 31000
 - c. COBIT
 - d. ISO 27001
 - e. King IV Corporate Governance.

3. Risk Management

A. Risk Management for SOEs

1. SOEs shall implement effective risk management to safeguard assets, ensure financial stability, and achieve long-term goals.
2. A comprehensive risk management framework, including Enterprise Risk Management (ERM), should be developed to identify, assess, and manage risks across all functions. Regular assessments and reporting to the Board and senior management are required to support proactive decision-making.

B. Developing a Risk Management Framework

1. SOEs shall develop a central risk register to document risks, potential impacts, and likelihoods.
2. Mitigation strategies shall be designed and monitored to ensure effectiveness.
3. The risk management process shall align with the SOE's strategic objectives.

C. Board Responsibility for Risk Management

The Board of Directors shall:

- A. Define the company's risk appetite, linked to the strategic plan.
- B. Ensure robust risk management, fraud prevention and reporting systems.
- C. Monitor risks and ensure effective reporting.
- D. Specify a Committee of the Board to oversee the risk management function including Fraud Risk Management.

APPENDIX 1: Explanatory Resource- Illustrative Self-Assessment/ Key Performance Indicators for Audit Committees(Mapped to IIA Standards)

Audit Committees play a critical role in overseeing financial reporting, risk management, internal controls, and compliance within an organization. To ensure these responsibilities are effectively fulfilled regular self-assessment and performance evaluations using Key Performance Indicators (KPIs) are essential. This document provides a structured framework for audit committee evaluations, based on global best practices helping audit committees maintain transparency, accountability, and alignment with organizational goals.

Key Performance Indicators (KPIs)

Audit committees should be evaluated based on the following criteria

- 1. Governance and Structure**
 - 2. Financial Reporting Oversight**
 - 3. Internal Control**
 - 4. Risk management**
 - 5. Oversight of Internal and External Audit Functions.**
 - 6. Compliance and Ethics Oversight.**
 - 7. Performance and Continuous Improvement**
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