

TERMS OF REFERENCE – AUDIT COMMITTEE FFL

1. **Composition of Audit Committee**
 - a. **Listed Companies**. The Audit Committee shall be constituted by Board of Directors keeping in view the following requirements:-
 - 1) The Audit Committee shall consist of at least three members comprising of non-executive directors and at least one independent director.
 - 2) Chairman of the Committee shall be an independent director, who shall not be the Chairman of the Board.
 - 3) At least one member of the audit committee qualifies as “financially literate”. The expression “financially literate” means a person who is a member of a recognized body of professional accountants or has a post graduate degree in finance from a university or equivalent institution, either in Pakistan or abroad recognized by the Higher Education Commission of Pakistan or who has at least ten years of experience as audit committee members or at least twenty years of senior management experience in overseeing of financial, audit related matters.
 - 4) The company secretary shall be the secretary of the Audit Committee.
2. **Meeting**. The meeting of the Audit Committee shall be held as per the following requirements:-
 - a. The Audit Committee of a company shall meet at least once every quarter of the financial year. These meetings shall be held prior to the approval of interim results of the company by its Board of Directors and after completion of external audit.
 - b. A meeting of the Audit Committee shall also be held, if requested by the external auditors or the head of internal audit.
 - c. 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 or the audit committee at which issues, if any, relating to accounts and audit are discussed.

Provided that chief executive officer and the chief financial officer shall not attend any meeting of the audit committee except by invitation only.

Provided further that at least once a year, the Audit Committee shall meet the external auditors without the chief financial officer 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 chief financial officer and the external auditors being present.

- d. The committee may invite, any person as considered necessary on invitation.

3. **Terms of Reference**. The Board of Directors shall provide adequate resources and authority to enable the audit committee to carry out its responsibilities effectively. The terms of reference of the audit committee shall be explicitly documented and shall also include the following:

- a. Determination of appropriate measures to safeguard the company's assets;
- b. Review of annual and interim financial statements of the company including Director's Report, prior to their approval by the Board of Directors, focusing on:
 - 1) major judgmental areas;
 - 2) significant adjustments resulting from the audit;
 - 3) going concern assumption;
 - 4) any changes in accounting policies and practices;
 - 5) compliance with applicable accounting standards;
 - 6) compliance with listing regulations as applicable, and other statutory and regulatory requirements; and
 - 7) all related party transactions.
- c. Review of preliminary announcements of results prior to external communication and 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, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the company. The performance appraisal of head of internal audit shall be done jointly by the Chairman of the Audit Committee and the Chief Executive Officer.
- h. Consideration of major findings of internal investigations of activities characterized as fraud, corruption and abuse of power 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 and internal audit reports;
- 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 Listed Companies CCG (where applicable) 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. The Audit Committee shall also review the annual business plan/budget, including cash flow projections, forecasts and strategic plan before recommending it to the Board.
- q. In order to ensure the financial health of the company and to comment on the going concern status of the business, review of Key Performance Indicators (KPI) in comparison of the industry benchmark shall be carried out by the Committee.
- r. To review the effectiveness of risk management procedures and to present a report to the Board in this respect, the committee shall at least twice a year:-
 - 1) Monitor and review of all material controls (financial, operational, compliance);
 - 2) Ensure that risk mitigation measures are robust along with integrity of financial information; and
 - 3) Ensure appropriate extent of disclosure of company's risk framework and internal control system in Directors report.
- s. The Committee shall review the vision and / or mission statement monitoring the effectiveness of the company's governance practices and overall corporate strategy for the company before adoption by the Board
- t. Consideration of any other issue or matters or may be assigned by the Board of Directors.

4. **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.