

# MURREE BREWERY COMPANY LIMITED

## TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

### 1. CONSTITUTION

- 1.1 The audit committee (**Committee**) was constituted as a committee of the board of directors (**board**) of MURREE BREWERY CO. LIMITED (**Company**) at a full meeting of the board in accordance with the articles of association of the Company.
- 1.2 The Committee has the delegated authority of the board in respect of the functions and powers set out in these terms of reference.

### 2. ROLE

The role of the Committee is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 2.1 The integrity of the financial information provided to shareholders.
- 2.2 The Company's system of internal controls and risk management.
- 2.3 The internal and external audit process and auditors.
- 2.4 The processes for compliance with laws, regulations and ethical codes of practice.

### 3. TERMS OF REFERENCE

The board of directors of the company shall determine the terms of reference of the audit committee. 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 quarterly, half-yearly and annual financial statements of the company, prior to their approval by the Board of Directors, focusing on:
  - (i) Major judgmental areas;
  - (ii) Significant adjustments resulting from the audit;
  - (iii) Going concern assumption;
  - (iv) Any changes in accounting policies and practices;
  - (v) Compliance with applicable accounting standards;
  - (vi) Compliance with listing regulations and other statutory and regulatory requirements; and
  - (vii) Significant 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 listed 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;
- h) Consideration of major findings of internal investigations of activities characterized by 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 listed 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 officer 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 these regulations 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) Consideration of any other issue or matter as may be assigned by the board of directors.

### **3.2 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 the chief financial officer prior to the next meeting of the board and 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.

### **3.3 Risk management systems and internal controls**

The Committee shall:

#### **(a) Risk management**

- (i) On behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's risk management and internal control systems to cover all material controls, including financials, operational and compliance controls and, at least annually, carry out a review of its effectiveness, and review and approve the statement to be included in the annual report concerning risk management.
- (ii) On behalf of the board, ensure that an ongoing robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks.
- (iii) Oversee and advise the board on the Company's current risk exposure and future risk strategy and annually consider how the remuneration of executives shapes their view of risk.

#### **(b) Internal controls**

Review the Company's internal financial controls and internal control systems and, at least annually, carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control.

#### **(c) Management and internal and external audit reports**

- (i) Review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control.
- (ii) Review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation.

### 3.4 Related party transactions

- (i) The details of all related party transactions shall be placed periodically before the Audit Committee of the company and upon recommendations of the audit committee the same shall be placed before the board for review and approval.
- (ii) The related party transactions, not executed at arm's length price, shall also be placed separately at each board meeting along with necessary justification for consideration and approval of the board on recommendation of the Audit Committee of the listed company.
- (iii) The board of directors of the company shall approve the pricing methods for related party transactions that were made on the terms equivalent to those that prevail in arm's length transaction, only if such terms can be substantiated.

### 3.5 Internal audit

The Internal Audit function of the company is outsourced with EY Ford Rhodes Chartered Accountants, A member firm of EY Global Ltd.

#### (1) Composition:

There shall be an internal audit function in the company. The head of internal audit shall functionally report to the audit committee and administratively to the chief executive officer and his performance appraisal shall be done jointly by the Chairman of the audit committee and the chief executive officer. A director cannot be appointed, in any capacity, in the internal audit function to ensure independence of the internal audit function.

#### (2) Functional profile:

- (a) The internal audit function, wholly or partially, may be outsourced by the company to a professional services firm or be performed by the internal audit staff of holding company. In lieu of outsourcing, the company shall appoint or designate a fulltime employee other than chief financial officer, as head of internal audit holding equivalent qualification prescribed under these Regulations, to act as coordinator between firm providing internal audit services and the board. Provided that while outsourcing the function, the company shall not appoint its existing external auditors as internal auditors.
- (b) The companies 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.

### 3.6 External audit

#### Terms of Appointment:

- (1) The company shall not appoint as external auditors, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan.
- (2) The company shall not appoint as external auditors, a firm of auditors which or a partner of which is non-compliant with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.
- (3) The Board of Directors of the company shall recommend appointment of external auditors for a year and his remuneration, as suggested by the audit committee. The recommendations of the audit committee for appointment of an auditor or otherwise shall be included in the Directors' Report. In case of a recommendation for appointment of an auditor other than the retiring auditor, the reasons for the same shall be included in the Directors' Report.
- (4) The company shall not appoint its auditors to provide services in addition to audit except in accordance with these regulations and shall require the auditors to observe applicable International Federation of Accountants guidelines in this regard. The company 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 listed company.
- (5) The company shall not appoint a person as an external auditor or a person involved in the audit of a listed company who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the listed company.
- (6) The company shall require external auditors to furnish a management letter to its board of directors within 45 days of the date of audit report. Provided that any matter deemed significant by the external auditor shall be communicated in writing to the board of directors prior to the approval of the audited accounts by the board of directors.

#### 4. Audit Committee Composition:

The audit committee shall be constituted by board of directors keeping in view the following requirements:

- (i) The board of directors of the company shall establish an audit committee of at least three members comprising of non-executive directors and at least one independent director.
- (ii) Chairman of the committee shall preferably be an independent director, who shall not be the chairman of the board.

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(iii) The board shall satisfy itself such that at least one member of the audit committee qualifies as "financially literate". Explanation: Expression "financially literate" shall mean 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.

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

## 5. MEETINGS

5.1 The Committee 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 listed company by its board of directors and after completion of external audit.

5.2 A meeting of the audit committee shall also be held, if requested by the external auditors or the head of internal audit.

5.3 The chief financial officer, 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 of the audit committee at which issues, if any, relating to accounts and audit are discussed:

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

5.5 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.

5.6 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..

## 6. NOTICE OF MEETINGS

Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 7 days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time, but Committee papers may be forwarded at shorter notice with the approval of the Committee chairman.



**7. QUORUM**

- 7.1 The quorum necessary for the transaction of business at a Committee meeting shall be two members.
- 7.2 A duly convened Committee meeting at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

**8 Compliance, whistleblowing and fraud**

The committee shall:

- 8.1 Review the adequacy and security of the company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 8.2 Annually review the company's procedures for detecting fraud; and
- 8.3 Review the company's systems and controls for ethical behavior and the prevention of bribery and receive reports on non-compliance.

**9. REPORTING RESPONSIBILITIES**

The Committee shall:

Report to the board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be included in the board papers for a subsequent board meeting.

**10. MINUTES OF MEETINGS**

- 10.1 The secretary to audit committee (or his or her nominee) shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 10.2 Draft minutes of Committee meetings shall be circulated promptly to all Committee members. Once approved, minutes shall be circulated to all other board members unless in the opinion of the Committee chairman it would be inappropriate to do so.