

NETWORK ON CORPORATE GOVERNANCE
OF SOEs IN ASIA

PAKISTAN

OECD Guidelines on Corporate Governance of
SOEs-----Chap V

Implementation Guide to Ensure Accountability
and Transparency in State Ownership---Chap 3

AUDITING PERFORMANCE

Guide suggests;

Defined scope and role of Internal, External and State Audits

Complementing Each Other

Based on International Standards for the Professional Practice of Internal Audit

INTERNAL AUDIT

In Pakistan

Legal Documents creating SOEs provide scope of Internal Audit

Resources / Access / Reporting to Audit Committee

SECP Code of CG 2002 elaborates constitution of Audit Committees, frequency of meetings, TORs.

Risk Analysis and other reports are not provided to OE.

SOEs Annual Reports do not contain Internal Audit Report.

External / Independent Audit

State should ensure competent, qualified and independent External Auditors

Reporting to Shareholders via Boards

In Pakistan

Code of CG 2002 and Companies Ordinance 1984 require SOEs to have External Auditors, nominated by the Audit Committees and endorsed by Boards and approved by the AGM.

State has no role in appointing External Auditors in the SOEs

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External Auditors cannot undertake non audit services

Rotation after 5 years

Cannot hold shares in the SOEs

Must have satisfactory rating from the ICAP and compliant to IFAC Code of Ethics

State Audit

Checks how public funds are used in terms of legality, Regularity and 3 E's

OE takes action in the light of PAC's directives on State Audit Report on SOEs

Auditor General's Act requires all SOEs to have State Audit—defines its Audit scope and periodicity

Mathilde's Questions

- 1 How Internal Audit could be Strengthened?
- 2 Good Practices for External Audit?
- 3 Respective Roles of External and State Audits?

Issues for Discussion

1 Internal Audit Reports being picked up by the State Auditors and reporting to *Parliament*—*dilemma*—*on one hand it sounds good that serious matters even if picked up by the Internal Auditors should be reported to people thru Parliament but on the other hand, it discourages Internal Auditors and Management to make a report containing serious matters*

2 Joint Audit

State and External Audit could undertake respective audits of an SOE simultaneously—Audit Committees to coordinate

Saving of lots of time of SOE's management

3 Fee of External Auditors

Management could change External Auditors if latter are not amenable and points out serious irregularities against them.

Suggestion is that External Auditors should be paid fees by the ICAP or SECP (Regulator) from pool of funds to be contributed by all the SOEs according to certain scales.

Thank You