

Before Ali Azeem Ikram – Head of Department

In the Matter of Show Cause Notice issued to Khalid Siraj Textile Mills Limited

Date of Hearing:

October 22, 2020

Order - Redacted Version

Order dated January 28, 2021 was passed by Head of Department (Adjudication-I) in the matter of Khalid Siraj Textile Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated February 10, 2020
2. Name of Company	Khalid Siraj Textile Mills Limited
3. Name of Individual*	The proceedings were initiated against the board of directors including the CEO of the Company.
4. Nature of Offence	<p>Proceedings were initiated in terms of the Listed Companies (Code of Corporate Governance) Regulation, 2017 (CCG Regulations) read with Section 512 of the Companies Act, 2017 (the Act).</p> <p>Brief facts of the case are that review of the Company's annual audited financial statements for the year ended June 30, 2018 revealed that the auditors of the Company, in its review report on the Statement of Compliance with the Regulations highlighted the following non-compliances:</p> <ul style="list-style-type: none">i. Non-operative internal audit function;ii. Non-appointment of any independent director on the Company's Board; andiii. Non-certification of Director's Training Program (DTP).
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have analyzed the facts of the case, relevant provisions of law, and the arguments set forth during the hearing as well as the Company's written correspondence with the Commission. It is evident that the Board of Directors of the Company have contravened the afore-referred provisions of the CCG Regulations by failing to appoint an independent director on the Company's Board, having a non-operational audit function, and non-certification of the DTP.</p> <p>I would like to add here that the Code of Corporate Governance aims at strengthening governance structures, bringing consistency in the corporate practices and promoting transparency through enhanced disclosure requirements laying down certain significant functions like safeguarding the interest of all stakeholders, particularly the minority holders, harmonizing the conflicting interest of the stakeholders, analyzing the performance of management, mediating in situations like the conflict between management and the shareholders interest. Under the 2017 Code, the roles and responsibilities of directors are more explicit and</p>

	<p>enhanced, encouraging independent decision-making, diversity, and strengthening the mechanism for transparency and accountability.</p> <p>An effective internal audit function is the cornerstone of good corporate governance in a company and can play a vital role to improve management and accountability, both financial and non-financial. Internal audit can be a pivotal activity to provide assurance to the board of directors, the audit committee, the chief executive and stakeholders that the company is governed effectively. The role of internal audit is to provide independent assurance that a company's risk management, governance, and internal control processes are operating effectively.</p> <p>An internal audit is conducted objectively and designed to improve and mature a company's business practices providing insight into a company's culture, policies, procedures, and aiding board and management oversight by verifying internal controls such as operating effectiveness, risk mitigation controls, and compliance with all applicable laws or regulations. By continuously monitoring and reviewing company processes, the Board can identify control recommendations to improve the efficiency and effectiveness of these processes, in turn, allowing the company to be dependent on processes, rather than people. By regularly performing an internal audit, companies can ensure compliance with all relevant laws and regulations.</p> <p>To assist the corporate leadership in Pakistan in a rapidly evolving landscape, responding to these challenges and to ensure continuous professional development at the highest corporate level, the Directors Training Program is mandatory under the 2017 Code. This interactive Program covers essential topics including key elements of corporate governance including best board practices, control environment and processes, disclosure and transparency, and protection of shareholders rights.</p> <p>The DTP is a multi-tiered Program which meets the training and development needs of aspiring and experienced directors aimed at enhancing their confidence and capabilities in their governance practices and to ensure a solid understanding of their fiduciary duties. The Program is structured to assist the participants to be conversant, understand and evaluate different approaches to constructing the ownership, control and regulation of companies encompassing the principles and key pillars of corporate governance, its benefits and objectives, the roles and responsibilities of the Board and the management in light of the regulatory requirements aligned with international best practices in corporate governance.</p> <p>In view of the preceding facts, I have come to the conclusion that the pertinent provisions of the Regulations have been contravened and the Respondents are liable to penal action under Regulation 41 of the CCG Regulations as a result of failing to appoint an independent director on the Company's Board, having a non-operational audit function, and non-certification of the Directors' Training Program.</p>
6. Penalty Imposed	A penalty of Rs. 50,000/- (Rupees fifty thousand only) was imposed on the CEO of the Company.
7. Current Status of Order	No Appeal has been filed by the Respondents.

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