



Corporate Governance of Public Sector Companies (PSCs)

Securities and Exchange Commission of Pakistan



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Need of Corporate Governance for PSCs



- PSCs play a key role in strategic sectors of the economy
- Need for increased transparency, disclosure and accountability in the public sector
- Introduction of a performance-based approach to public sector management
- Lack of or weaknesses in governance mechanism causing losses in public enterprises

Existing Governance Framework for PSCs



- For PSCs:
 - Companies Ordinance, 1984 (the Ordinance)
 - Code of Corporate Governance (for listed PSCs)
- For non-corporate SOEs operating as specialized statutory bodies – relevant statute.
- PSCs define their public-sector specific regulations in their articles of association.
- A number of statutory bodies exercise oversight over the financial and operational affairs of PSCs, including PAC, AGP, PPRA, sectoral regulatory authorities, etc.

Governance Challenges faced by PSCs



- **Passive ownership by the Government**
- **Undue interference in operational matters**
- **Complex accountability due to social objectives**
- **Need for reform in policy conditions as well as internal structures and processes**
- **Weak debt-holder monitoring due to implicit government guarantee**

Governance Challenges faced by PSCs



- Human Resource Management Issues
- Lack of effective internal controls
- Infrastructural problems leading to falling standards of productivity and competitiveness
- Lack of e-Governance initiatives
- Corruption, fraud and bribery
- Procurement related issues

Initiatives taken by SECP



- Issuance of Code of Corporate Governance for listed corporate sector in 2002 and on-going revamping of the Code of Corporate Governance
- Proposed extension of the corporate governance provisions on corporate SOEs, not-for-profit companies, and unlisted companies
- Support for the establishment of the Pakistan Institute of Corporate Governance (PICG)
- Notification on Corporate Social Responsibility, an evolving issue for SOEs

Salient Features of the Regulations



The Regulations broadly deals with the following issues:

- Composition of the Board of Directors
- Board Committees
- Responsibilities, Powers and Functions of the Board
- Audit Committee
- Internal Audit Function
- External Auditors

Composition of the Board

Effective representation of non-executive directors, and independent directors from the private sector on the Board of Directors is encouraged:

- **Independent Directors to be appointed for three years, except ex-officio directors;**
- **In case of failure of PSC to appoint any independent non-executive directors, reasons and proposed remedial measures for the same shall be disclosed.**
- **Directors shall be fit and proper for the position, as per prescribed criteria.**

Salient Features



Board of directors – Committees

● **Audit Committee**

To ensure an efficient and effective internal and external financial reporting mechanism;

● **Risk Management Committee**

To effectively review the risk function, in case of PSCs in the financial sector;

● **Recruitment Committee**

To determine appointment, removal, and other relevant terms and conditions of employment of the employees of PSC;

● **Human Resources' Committee**

To deal with all employee related matters including training, remuneration, performance evaluation, succession planning, and measures for effective utilization of employees of PSC; and

● **Procurement Committee**

To ensure transparency in procurement transactions and in dealing with the suppliers.

Salient Features



Board of directors – Responsibilities, Powers and Functions

The Board shall, among other things:

- draw up a **Code of Ethics**, to be signed by each director and executive in recognition of his/her understanding on acceptance of the standard of conduct;
- adopt a **vision/ mission statement, overall corporate strategy and formulate significant policies** within the policy and resource framework laid down by the Government;
- establish appropriate arrangements to ensure that they have **access to all relevant information, advice and resources** which are necessary for effective management;
- ensure that an **internal control system** is in place and adhered to;
- approve **investment and capital expenditure** decisions; and
- Formulate significant policies of the PSC.

Salient Features



Board of directors – Meetings

- The Chairman of the Board shall preferably be a non-executive director.
- The office of the Chairman shall be separate, and his responsibilities distinct from that of the Chief Executive.
- The Board should meet, at least once in each quarter, to discharge its duties and obligations to shareholders and other stakeholders efficiently and effectively.

Salient Features



Board of Directors - Key Information to be placed for decision

- Aimed at strengthening and formalizing corporate decision-making process.
- Board shall establish appropriate arrangements to ensure access to all such relevant information, advice and resources for effective decision-making.
- A myriad of significant issues and key information shall be placed for the information, consideration and decision of the Board.
- Every PSC shall ensure that monthly accounts are prepared and circulated to the directors for their information.

Capacity Building of the Board

- ④ Orientation courses shall be held by all PSCs for their directors to acquaint them with the company's specific operations and working environment.
- ④ The nominee directors are required to have passed the directors' course conducted by PICG or other recognized institute.

Salient Features



Chief Financial Officer, Company Secretary, and Chief Internal Auditor

- Appointment & removal, remuneration and terms and conditions of employment shall be determined by the CEO with the approval of the Board of directors.
- New appointments of CFO and Company Secretary must be made in accordance with the prescribed qualifications.
- The CFO and Company Secretary shall attend all the meetings of the board.

Financial Statements and Directors' Report:

- All PSCs shall adopt International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as applicable in Pakistan.
- Significant matters to be included in the Directors' report shall include compliance with corporate governance and reasons for non-compliance, if any; true and fair reporting in financial statements; internal control systems; financial support from the Government; performance indicators relating to social objectives; etc.

Salient Features



Disclosure of Interests by Directors and Officers

- Disclosure of all direct or indirect interests/concerns of directors or their relatives in any existing or proposed contract or arrangement in directors' meeting.
- Prior approval of the Board if any other officer enters into such a contract or arrangement.
- Disclosure of existing interests of directors/officers before the Board which will decide the outcome.

Salient Features



Audit Committee

- **Minimum three members.**
- **Eligibility criteria for Members of the Committee.**
- **Chairman of the Audit Committee.**
- **Terms of Reference of the Committee.**
- **Responsibility for managing PSC's relationship with the external auditors.**

Salient Features



Internal Audit

- There shall be an internal audit function in every PSC.
- Consultation between internal and external auditors shall be encouraged and internal audit reports shall be made available for review of the external auditors
- **Chief Internal Auditor to be:**
 - Accountable to the chair of the Audit Committee;
 - Have unrestricted access to the Chair and members of the entire board and the Audit Committee directly; and
 - Fit and proper for the position.

Salient Features



External Auditors

- Every PSC is required to have an annual audit conducted by external auditors.
- Recommendation for appointment of external auditors to be made by the Audit Committee.
- Mandatory rotation of audit firms/engagement partners after every three years.

Current Status



- Government of Pakistan (GOP) initiated a restructuring programme to undertake reforms in eight major SOEs.
- The Economic Reforms Unit (ERU) of the Ministry of Finance is spearheading the said programme.
- SECP has provided technical support to ERU on the restructuring programme, including that for the restructuring of designated SOEs, and appointment of competent CEOs on their boards.
- Draft Regulations have been shared with the GOP for having their preliminary feedback thereon.

Way Forward



Formation of a Task Force with representation from the Government, SOEs, private sector, professional bodies, and SECP, is underway to undertake a holistic overview of the issues and challenges faced by SOEs, including the following:

- Corporatization of non-corporate SOEs created and governed under special enactments to improve their governance framework and provide a level playing field with private competitors.
- Limit the Government's ability to give direction to SOEs and their boards to strategic directions and policies only.
- Selection of independent directors on PSC boards after matching candidate's skills and experience to meet a particular set of job specifications tailed to suit a particular PSC.
- Provision of clear terms of reference to individual directors upon their appointment, and to each board as a whole.

Way Forward – cont'd



- Performance related rewards and sanctions and enhancement of accountability mechanisms.
- Corporatization of SOEs or improving their governance mechanisms under the umbrella of company law.
- Carrying out a diagnostic analysis of the below-par performance of SOEs to make recommendations for a sustainable improvement in their operational/financial performance and service delivery to the public.
- Enlistment of the equity/debt securities of PSCs on the stock exchanges for a broad based ownership structure as well as for further improvement in their governance mechanism through the listing regulations of stock exchanges.
- Monitoring of SOE performance and benchmarking through development of reasonably clear performance targets, Key Performance Indicators, and/or Performance Agreements.



Thank you