Post Event Publication

Session with Audit Committees of Listed Companies

Bridging the Gap: Aligning Auditors, Regulators and Audit Committees

Wednesday, May 21, 2025 | 9:00 AM | ICAP House, Karachi

The Institute of Chartered Accountants of Pakistan

Foreword

The financial world is complex and relies heavily on trust and transparency. At its core is the financial reporting system, involving various stakeholders each of whom has an important role. The integrity of this system is crucial for investor confidence, regulatory oversight, and sustainable economic growth.

In this context, the Auditing Standards & Ethics Board of the Institute of Chartered Accountants of Pakistan (ICAP), organized a session titled 'Bridging the Gap: Aligning Auditors, Regulators, and Audit Committees' on May 21, 2025. This event was more than just a session; it was a platform for dialogue, understanding, and collaboration among key players in financial reporting.

The session highlighted the essential roles of all participants. The Securities and Exchange Commission of Pakistan (SECP) sets the rules for corporate governance and financial disclosures. The State Bank of Pakistan (SBP) ensures stability and compliance in the financial sector. The Auditing Oversight Board (AOB) monitors audit quality, while the Pakistan Stock Exchange (PSX) provides a platform for capital formation based on credible financial information. ICAP upholds auditing and ethics standards. Auditors provide independent assurance to financial statements, and Audit Committees of Listed Companies act as the oversight arm, connecting management, auditors, and regulators.

The International Ethics Standards Board for Accountants (IESBA) plays a pivotal role in the global financial reporting ecosystem by issuing the universally recognized International Code of Ethics for Professional Accountants. Their participation and presentation at the session were therefore crucial, as they provided direct insights into the ethical framework that underpins the credibility and reliability of financial reporting for all stakeholders involved.

Such sessions are necessary in today's world of evolving regulations, complex business models, and high stakeholder expectations. The goals of this session were to understand each other's roles, improve coordination, discuss challenges in financial reporting, and enhance the quality and reliability of financial information.

This publication captures the rich discussions from the session. We heard valuable insights from representatives of all regulatory bodies. Panel discussions with Audit Committees and Auditors, along with engaging Q&A sessions, allowed for open exchanges of ideas and best practices. The participation of renowned personalities from the financial community added depth to the discussions.

This publication serves as a record of the insights shared, challenges discussed, and improvement pathways identified during the session. We believe that by consistently bridging gaps and enhancing alignment among all stakeholders, we can strengthen the financial reporting system, enhance corporate governance, and contribute to a more resilient and trustworthy capital market in Pakistan.

We extend our sincere gratitude to all speakers, panelists, participants, and the dedicated team who made this session and publication possible.

Auditing Standards & Ethics Board
The Institute of Chartered Accountants of Pakistan

Session with Audit Committee of Listed Companies

Executive Summary

The Auditing Standards & Ethics Board (ASEB) hosted a momentous first-of-its-kind session with Audit Committee Chairpersons and auditors of listed companies. This forum served as a strategic platform to strengthen ethical governance, foster collaboration among key actors in the audit ecosystem, and reinforce ICAP's commitment to audit quality and transparency.

This event served as a strategic platform to present the vision, objectives, and priorities of ASEB, while also facilitating open conversations on pressing issues related to auditor independence, regulatory expectations, and the evolving role of audit committees. The session featured high-level panel discussions, expert presentations on the regulatory landscape, and keynote addresses from distinguished representatives of international and national regulatory bodies, including IESBA, SBP, SECP, and AOB.

Renowned leaders from the corporate, regulatory, and audit communities participated in this event, bringing invaluable insights and perspectives. The dialogue centered on aligning audit committees, auditors, and regulators to uphold financial integrity, enhance public trust, and prepare for emerging challenges.

Key themes discussed included:

Regulatory Expectations: SECP and AOB emphasized the audit committee's responsibility for governance, oversight, and auditor selection, calling for stronger independence, ESG reporting oversight, and structured performance evaluations.

Emerging Risk Landscape: Speakers highlighted growing risks from AI, cybersecurity, and climate change, urging audit committees to broaden their skillsets and adopt proactive, risk-based oversight practices.

Audit Committee Effectiveness: Presentations underscored the importance of well-composed committees with strong leadership, independent evaluations, ethical rigor, and meaningful engagement with both internal and external auditors.

Auditor Independence & Ethics: The IESBA Code of Ethics was presented as a foundational tool to guide auditor conduct, reinforce independence, and promote transparent communication with governance bodies.

Circular Debt & Sector Challenges: The deferment of IFRS 9 in the energy sector was debated as a necessary but temporary measure, highlighting broader issues of financial reporting accuracy and systemic reform.

Capacity Building & Future Readiness: Both audit partners and committee members stressed the need for targeted training and the inclusion of professionals with expertise in ESG, technology, and data analytics.

The response from participants and the support extended by all stakeholders is encouraging. This event not only underscored the importance of collaboration among governance actors but also reaffirmed the Board Audit Committee's commitment to advancing high-quality auditing and ethical practices in Pakistan.

The session concluded with a collective call to action for continued engagement, mutual accountability, and ethical leadership across all audit stakeholders to strengthen Pakistan's financial oversight framework and corporate governance landscape.

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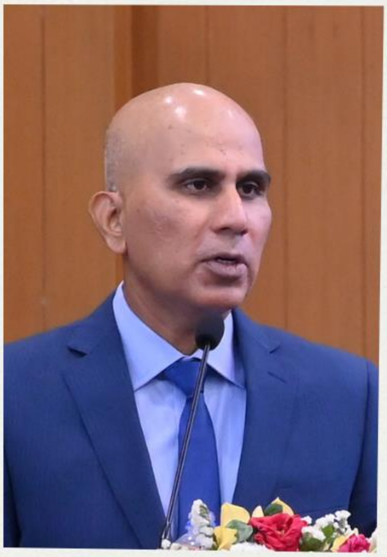
Speakers



Panel Discussion








ICAP

Session with Audit Committees of Listed Companies held on May 21, 2025 at ICAP House Karachi

Watch online

https://icap.org.pk/aseb/events/

The Institute of Chartered Accountants of Pakistan

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Opening Remarks by Ms. Hina Usmani, Council Member, ICAP

The event commenced with opening remarks by Ms. Hina Usmani, who began extending a warm welcome to all attendees. She welcomed all distinguished participants to the highly exclusive and first-of-its-kind session organized by ASEB of ICAP.

Ms. Usmani highlighted that the session was designed to foster a much-needed connection between regulators, auditors, and audit committees—an interaction that, until now, had not been formally facilitated in this manner. She acknowledged that this initiative was a thoughtful and deliberate step by ASEB to bridge gaps in professional understanding and to promote meaningful dialogue and knowledge-sharing among these critical stakeholder groups. She extended her special appreciation to the representatives from the SECP, SBP, AOB and IESBA for their presence.

In her remarks, Ms. Usmani noted the recent elevation of ICAP's commitment to audit quality and ethics through the establishment of ASEB—an independent board with an expanded scope and broad-based representation from key regulatory and oversight bodies, including SECP, SBP, QAB, and PSX. She explained that the primary focus of the Board is to enhance stakeholder engagement and improve coordination between auditors of public interest entities and regulators on audit-related matters.

She elaborated on the Board's key functions, which include reviewing the legal and regulatory frameworks that define the eligibility, responsibilities, and rights of auditors with the aim of recommending reforms where needed. In addition, the Board would work on building capacity among audit firms in challenging areas, issuing thematic guidance on complex or emerging issues, and ensuring the development and application of high-quality audit, assurance, and ethics standards. She underscored the Board's overarching goal to serve the public interest through collaboration with both local and international stakeholders.

Ms. Usmani also contextualized the session within global trends of deregulation, citing examples from the European Union, the United States, Argentina, and Brazil. She noted that many jurisdictions are shifting towards regulatory simplification to promote competitiveness, reduce organizational barriers, support innovation, and attract investment. These changes, she said, have triggered important discussions about the role and relevance of standard-setting bodies, with increasing calls to slow the pace of new standards and instead prioritize consolidation, implementation support, and stakeholder dialogue.

In light of these developments, Ms. Usmani emphasized the critical role of audit committees, auditors, and regulators in safeguarding the public interest. She observed that although each of these groups plays an essential role in ensuring transparency, accountability, and compliance, their interactions often remain fragmented. Bridging this gap, she argued, is essential for strengthening financial oversight, mitigating risk, and improving corporate governance.

She concluded by stating that the session was designed to bring these key actors together for a collaborative discussion around regulatory roles, emerging best practices, and the practical experiences of audit committee chairs in working with auditors and regulators. The event, she said, reflects ICAP's commitment to excellence, ethics, and innovation in the audit profession.

Ms. Usmani expressed her hope that participants would find the session valuable and encouraged active engagement throughout the event. She closed by thanking all attendees for their presence and wishing them a productive and meaningful experience.

Views from Regulators on Role of Audit Committees

Keynote Speech from Mr. Akif Saeed, Chairman SECP

Mr. Akif Saeed emphasized the central role of audit committees in driving corporate governance reforms. He highlighted that financial transparency, accountability, and investor confidence are core to SECP's regulatory vision, and noted that timely, quality information and effective governance are vital for listed companies and capital market integrity. It mandates audit committees for listed companies and expects them to provide independent oversight, monitor internal controls, oversee audits, and ensure compliance. SECP's regulatory approach aligns with the International Organization of Securities Commissions (IOSCO) principles, which call for accurate disclosures and strong, independent audit committees to ensure reliable financial reporting and robust internal controls.

Mr. Akif Saeed, in his speech emphasized that SECP is committed to enhancing the corporate governance framework and capacity building for board and committee members. SECP noted they are starting to review financial statements and summoning entire boards for irregularities, holding both management, boards and audit committees responsible, not solely auditors.

Referring to the World Bank's ROSC 2021 report, he emphasized the need to strengthen audit committee independence, expertise, and oversight capacity. Under SECP's Code of Corporate Governance, audit committees are mandatory for listed companies and play a key role in overseeing financial reporting, audit functions, and regulatory compliance. Recent amendments highlight the crucial role of audit committees in overseeing sustainability reporting. Mr. Akif underscored the importance of proactive engagement between audit committees, management, and auditors, and stressed the need for competent members, structured meetings, and transparent processes.

He also addressed the critical role of external auditors in maintaining audit quality and their responsibility to remain independent and communicative with audit committees. Highlighting recent regulatory updates, he noted the expanded role of audit committees in overseeing sustainability reporting. He urged audit committees to conduct annual performance evaluations and reiterated that strong, independent committees are essential not only for compliance but for protecting shareholder interests and attracting investment. Mr. Akif concluded with SECP's commitment to advancing governance, embracing digital transformation, and strengthening board and committee capacities.

Keynote Speech from SBP member

Mr. Akhtar Javed, Executive Director, Banking Policy & Regulations Group of SBP highlighted the growing interdependence of auditors, regulators, and audit committees amid increasing economic complexity. He stressed that while each group plays a distinct role—auditors ensuring financial integrity, audit committees overseeing governance, and regulators safeguarding stability—gaps in coordination remain. These gaps, he noted, should be viewed as opportunities to strengthen oversight and alignment.

Focusing on the banking sector, Mr. Akhtar emphasized, underscored the critical role of robust governance for banking sector, citing the need for strong internal controls and the implementation of international standards, demanding strong governance and controls.

He outlined SBP's efforts to enhance audit and supervisory frameworks by adopting international standards (Basel III, IFRS 9), shifting to risk-based supervision, and working closely with AOB and ICAP to improve audit quality in the banking sector and promotes solutions like integrated assurance, adoption of technology like AI and audit analytics, joint meetings, and coordinated training programs to promote ICAP-SBP relationship.

He emphasized that the strength of the financial system relies on the interconnected trust and collaborative resilience of auditors, regulators, and audit committees. He highlighted the importance of practices such as auditor rotation, disclosure of key audit matters, and timely regulatory engagement. To bridge coordination gaps, he proposed integrated assurance, adoption of technology, joint training, and fostering a culture of ethics and transparency.

Mr. Akhtar concluded by reaffirming SBP's commitment to building a resilient, trusted, and transparent financial ecosystem through collaboration among regulators, auditors, and audit committees.

Keynote Speech from AOB member

Mr. M. Abdul Aleem, Board member of the AOB underscored the critical role of audit committees as a key pillar of oversight and the first line of defense in ensuring audit quality. He emphasized that audit committee decisions directly influence the transparency and credibility of financial reporting, which in turn builds investor trust in capital markets.

Mr. Aleem provided an overview of the AOB, Pakistan's independent audit regulator established under Part 9C of the SECP Act, 1997, with a mandate to oversee audits of Public Interest Companies (PICs), including listed entities, public sector companies, and NBFCs. He highlighted the legal requirement that only firms registered with the AOB and holding a satisfactory QCR rating can audit PICs, noting that violations of this mandate—including appointments of unregistered firms—have led to enforcement actions, including penalties and referrals to the SECP.

The AOB viewed audit committees as a critical pillar of oversight and the first line of defence for audit quality and public trust. Mr. Aleem, highlighted AOB's mandate to authorize audit firms for the audit of PICs and stressed the responsibility of boards and audit committees to appoint only eligible audit firms registered with the AOB and holding a valid quality control review (QCR) rating, noting instances of non-compliance and subsequent enforcement actions.

He reiterated that audit committees and boards have a legal duty under the Companies Act, 2017, to ensure auditors meet eligibility criteria. Beyond auditor appointments, audit committees are also responsible for reviewing financial statements and ensuring regulatory compliance.

Recognizing existing gaps, Mr. Aleem emphasized the need to enhance audit committee capacity through training and awareness. He encouraged leveraging SECP-approved director training programs and ICAP resources to equip members with the necessary knowledge and skills.

He concluded with a strong message to audit committees, affirming their crucial role in safeguarding audit quality and public trust. He called for a collective effort among regulators, professional bodies, and corporate boards to strengthen the integrity of Pakistan's audit ecosystem and bring it in line with global standards.

Sharing of Views by Mr. Asif Iqbal, SECP

Mr. Asif Iqbal, Director Fund Management Department, Specialized Companies Division of SECP, shared the SECP views on the significance of the topic.

He emphasized the critical role audit committees play in ensuring financial oversight, regulatory compliance, internal control monitoring, and upholding ethical standards. He highlighted that audit committees must conduct structured meetings, maintain open communication with auditors (including private sessions), and ensure members possess or access relevant expertise.

Stressing the importance of fraud prevention, he noted that while external audits have limitations, robust internal audit functions—often undervalued by companies—are essential and should be viewed as safeguards, not threats. He cited notable global and local cases where proactive audit committees uncovered major frauds.

Mr. Iqbal also discussed emerging responsibilities in ESG reporting, cybersecurity, and evolving financial expertise needs, suggesting audit committees may need broader capabilities and potentially external support. He encouraged continuous engagement between regulator, auditor and audit committee, referencing Malaysia's model of structured dialogue. On IFRS 9 and circular debt, he highlighted SECP's temporary exemption and ICAP's new guidelines, urging companies to begin using them while broader discussions continue.

He concluded by underscoring that strong audit committees are vital for transparent, accountable, and resilient corporate governance.

Keynote address by IESBA

Dr. Linda Biek, Director, International Ethics Standards Board for Accountants (IESBA), highlighted the critical need for strengthening oversight and accountability. She emphasized that in today's complex corporate environment, aligning auditors, audit committees, and regulators is essential to ensure ethical governance and build public trust.

Presenting the IESBA Code of Ethics as a globally recognized, ethical lens to help navigate complex decisions, she stressed the importance of fostering a culture of integrity, transparency, accountability, objectivity, competence, and diligence. These are core principles of ethical governance upon which trust is built. Dr. Biek also spoke about the global ethical standards that underpin audit quality and trust. She explained that the IESBA Code of Ethics sets out fundamental principles—integrity, objectivity, competence, confidentiality, and professional behavior—that are relevant across all areas of governance.

Dr. Biek highlighted the growing role of audit committees as guardians of integrity, stressing the need for proactive, trust-based collaboration with auditors. She emphasized relevant sections of the IESBA Code of Ethics that strengthen auditor independence and promote robust communication between auditors and those charged with governance (TCWG) of the Public Interest Entities (PIEs). These sections speak to a more transparent and engaged risk oversight environment, where ethical and professional standards are applied in active partnership with governance bodies.

Effective communication, she said, must go beyond formalities to open, ongoing dialogue about emerging risks, internal controls, and ethical concerns. She shared a cautionary example of oversight failure due to audit committee inaction, reinforcing the importance of vigilance and moral courage.

Dr. Biek outlined key actions for audit committees to be proactive in their oversight role, foster a culture of inquiry, uphold auditor independence, strengthen communication, and invest in ethical training. She called for a shift from transactional oversight to strategic partnership, supported by regulators.

In conclusion, she stressed that ethical governance is the bridge that connects principles and actions to trust. Aligning all parties through ethics and shared purpose is essential for building resilient institutions and public confidence.

ICAP

Presentation on the Regulatory Requirements of Audit Committee of Listed Companies

Ms. Hena Sadiq, Partner, Yousuf Adil Chartered Accountants, in her detailed presentation on the '*Regulatory Requirements of Audit Committees of Listed Companies*', underscored the existing regulatory requirements of listed companies code of corporate governance, the indicative characteristics of an effective audit committee/its members.

Global Perspective on Audit Committee Current Practices

She explained the international studies and reports on audit committee practices that underscore the importance of effective audit committees. The study showed that key emerging area that audit committee need to focus are cybersecurity, AI developments, supply chain disruptions, and workforce challenges, geopolitical and economic risks, including inflation and risk of recession, and ESG reporting etc. She noted that strong, knowledgeable, and independent committees are crucial for credible financial oversight and investor trust.

Building Blocks of Effective Audit Committees

She outlined what makes audit committees effective: a strong structure, well-defined responsibilities, risk-based thinking, and members who are skilled, independent, and ethical. It should comprise members who are free from management influence and possess a deep understanding of financial reporting, auditing, and risk management. She emphasized the need for time commitment and proactive engagement of audit committees with internal and external auditors.

Regulatory Requirements of Audit Committees in Pakistan

She reviewed audit committee requirements under SECP's Listed Companies (Code of Corporate Governance) Regulations, 2019, covering composition (non-executive and independent directors), financial literacy standards, and responsibilities such as overseeing internal and external audits. She discussed the extensive duties assigned to audit committees, including reviewing financial statements, monitoring internal controls, handling related party transactions, facilitating external audits, overseeing fraud investigations, and ensuring whistleblower protections.

Role of Audit Committee Chairs

Ms. Hena highlighted the critical role of the chairperson in setting the tone, leading discussions, refining the committee's terms of reference, and ensuring diverse expertise. She noted that effective chairs foster open communication and keep the committee focused on strategic issues. She also stressed the need to have clear bifurcation between the role of the board and the audit committee and the need of independent assessment of board and its committees for effective functioning.

Meeting Protocols and Board Interaction

She explained the frequency and format of audit committee meetings, expectations for attendance (especially of auditors), and the need for meetings without management, to ensure independence. She stressed proper documentation and board consideration of audit committee recommendations.

Global Challenges and Opportunities

Ms. Hena shared findings from global surveys about emerging risks (e.g., cybersecurity, ESG, AI) and concerns like overlapping responsibilities, skill gaps, and pressure from expanding agendas. She noted opportunities to improve through better communication, increased expertise, and refined focus.

Performance Evaluation of Audit Committee

She acknowledged that performance assessments of board and its committee, including audit committees, which are often overlooked but essential. She emphasized that evaluations should be independent, objective, structured, and geared toward meaningful improvement in the company's value creation. This would also keep audit committee members informed and aligned with evolving regulations and business risks.

Conclusion

Ms. Hena concluded by stating that audit committee experiences and challenges are shared globally. She encouraged continuous learning, stronger governance structures, and building committees that are equipped to meet today's evolving risks and responsibilities.

Session 1: Panel Discussion with Audit Committee Chairmen
'Bridging the Gap: Aligning Auditors and Audit Committees'

Left to Right - Ms. Hina Usmani, ICAP Council Member & Member, Auditing Standards & Ethics Board, Mr. M. Abdul Aleem, Board Member, Audit Oversight Board, Mr. Khalid Mansoor, Unilever Pakistan Foods Limited, Mr. Farrukh Rehman, ICAP Council Member & Chairman Auditing Standards & Ethics Board, Mr. Badaruddin F. Vellani, Vellani & Vellani, Mr. Aftab Ahmad, Pakistan Petroleum Limited, Mr. Amyn Currimbhoy, Jubilee Life Insurance Company Limited and Mr. Asif Ali Qureshi, CEO, UBL Fund Managers Limited & Member, Auditing Standards & Ethics Board

Summary of Panel Discussion

- The session underscored the critical importance of ethical governance, guided by principles such as integrity, transparency, accountability, objectivity, and professional competence.

  The panel shed light on practical challenges and opportunities. Key challenges identified included the extreme interconnectedness and complexity of risks (cybersecurity, AI, supply chain), the heavy risk agendas shouldered by audit committees, attracting and retaining talent, information asymmetry, and regulatory fragmentation. The opportunities would be that audit committees need to be active ethical leaders, questioning, challenging, and influencing decisions to safeguard financial reporting integrity.

- The workload and time commitment required for effective oversight were also highlighted.

- The panel discussed to build effective whistleblower mechanisms and diligent follow-up on reported issues was highlighted as essential so that irregularities are timely addressed to prevent systemic risks.

- A significant challenge in the energy sector, particularly for state-owned entities, is the circular debt, impacting receivables and investment plans, and potentially masked by regulatory deferrals of certain IFRS applications, raising concerns about financial transparency and true representation of financial position.

Summary of Panel Discussion - *Continued…*

- The panel also discussed the opportunities for improvement, including enhancing the minimum requirement for financial literacy on audit committees, enhancing information flow, increasing in-person and periodic meetings of audit committee and their auditors, adding specific expertise to audit committees beyond just financial literacy to address emerging risks like ESG and cyber security, the possibility of leveraging external expertise or subcommittees to address complex emerging areas was also debated.

- The need for a robust and independent process for evaluating the performance of audit committees and boards was further debated, with emphasis on clear goals, tailored assessments, candor, and feedback.

- While discussing the Q&A the panel discussed and gathered following suggestions for enhancing effectiveness including forming dedicated board subcommittees for risk management, similar to banks, to alleviate the heavy risk agenda on audit committees, improving communication with regulators through interactive methods, encouraging internal audit to focus reporting on risk levels and potential impact, rather than just detailing findings, ensuring timely provision of information by management to auditors and the audit committee to avoid hurried reviews and potential compromise to quality.

Key matters discussed in the Panel Discussion

Ownership Structure, Factors Affecting Financial Statement Quality, and Strengthening Stakeholder Trust

Mr. Abdul Aleem explained that ownership structure affects financial statement quality but the main determinant is the quality of the audit firm chosen by the audit committee. Other key factors include the board's strength and diversity, management's integrity, and robustness of internal controls and internal audit functions. Audit committee members must be independent, technically skilled, and willing to prioritize professional integrity and the organization's reputation over audit fees to build stakeholder trust.

Evolution and Quality of Communication between Audit Committees and External Auditors

Mr. Khalid Mansoor noted significant improvements in communication driven by regulatory expectations and governance best practices. There are now structured pre-and post-audit discussions focusing on risk areas, audit strategy, and emerging issues like ESG, AI, and cybersecurity. However, tight schedules and consecutive meetings can reduce the depth of these interactions. He emphasized that auditors should offer strategic insights, not just comply with the checklists, and audit committees should ensure sufficient time is allocated for thorough discussions with them.

Governance and Disclosure Challenges, Particularly ESG, Taxation, Cybersecurity and Financial Reporting

Mr. Badruddin Vellani identified ESG disclosures and cybersecurity risk management as the most urgent challenges facing audit committees, noting that many committees lack in-house expertise in these areas and should seek external support. While baseline compliance is common, committees should aim for more meaningful, timely voluntary disclosures to meet growing investor expectations. Mr. Vellani stressed the need for granular, candid, and forward-looking ESG information, which would provide investors with greater insight and value.

Impact and Justification of SECP's IFRS 9 Deferment on Circular Debt Reporting in Energy Sector

Mr. Aftab Ahmed explained that deferring IFRS 9 application is necessary for energy companies to survive because applying it would cause large impairment losses that could wipe out profits and destabilize the market. Circular debt is essentially government exposure, and without government action to clear dues or inject capital, applying IFRS 9 is impractical. He noted that while some energy companies comply with IFRS 16 and SECP directives, broader reforms in the energy sector are needed for sustainability.

Mr. Khalid Mansoor added that circular debt—now over PKR 2.7 trillion—is a systemic problem requiring reforms in theft reduction and governance within distribution, beyond just accounting fixes.

Key matters discussed in the Panel Discussion *- Continued…*

Reflecting Climate Change and Its Financial Impact in Corporate Reporting, Especially in Insurance

Mr. Currimbhoy highlighted that climate-related risks affect investor perceptions and operational resilience. Firms may need to outsource sustainability expertise or form dedicated board subcommittees. In financial institutions, specialized risk committees often manage these issues, similar need to be followed by other companies.

Ensuring "Tone at the Top" Throughout the Organization After Corporate Failures

Mr. Abdul Aleem stressed that corporate culture must start at the board level and cascade throughout the company. Failures usually stem from systemic oversight breakdowns. Audit committees should proactively collaborate with internal and external auditors to identify early warning signs and maintain open communication channels.

Why Markets Detect Issues Before Auditors and How to Address This Lag

Mr. Aleem noted that issues rarely come as surprises; signals often exist but require vigilance. Audit committee chairs should engage auditors early and share any red flags during the audit process, not just afterward. Mr. Badruddin emphasized the importance of a strong, trustworthy whistleblowing system open to internal and external reporting. Mr. Currimbhoy added that confidence in whistleblowing systems is crucial, suggesting reports be made directly to the audit committee chair or third parties to build trust. Mr. Mansoor humorously suggested insider trading may explain why markets sometimes learn before auditors.

Sufficiency and Improvement of Regulatory Frameworks for Audit Committees

Mr. Amyn Currimbhoy described the regulatory framework as comprehensive but overly focused on audit committees. He suggested responsibilities should be more evenly distributed across the board and recommended stronger regulator engagement with practical, beyond-checklist guidance to enhance audit committee effectiveness.

Questions & Comments from Audience

Question 1: When AOB identifies misstatements, are boards or audit committees held accountable too?

Response by panelist:
Accountability has historically focused on auditors, but a shift is occurring. AOB is considering broader responsibility frameworks. There are cases where SECP has summoned entire boards, signaling a move toward holistic accountability.

Question 2: Are internal audits incorporating foresight in line with new IIA standards?

Response by panelist:
Boards are exploring analytics and AI, but capacity building is needed. Moreover, SBP has also mandated regular board training in financial institutions, but this should extend across sectors.

Question 3: Should non-financial companies create a need to have a dedicated risk committee?

Response by panelists:
Mixed views were shared—some boards have combined risk and strategy committees. However, it was emphasized by the panelists that the review of ToRs is critical to avoid duplication and ensure clarity.

Question 4: When is it better to separate audit and risk committees in non-financial firms?

Response by panelists:
In energy and natural resource companies, distinct committees are often necessary due to complex operational risks.

Questions & Comments from Audience *- Continued*

Question 5: How can audit committees address the issue of companies excessively praising their governance while performance lags, especially when the board is in denial?

Response by panelists:

Self-promotion may be culturally accepted, but companies are generally aware of their actual performance internally. It is primarily the responsibility of directors—particularly independent directors—to raise concerns about underperformance during board meetings. This responsibility does not rest mainly with the audit committee. For minority shareholders, the Annual General Meeting (AGM) remains the appropriate platform to question and discuss company performance.

Question 6: How impactful and robust is the assessment of boards and audit committees, referencing the PICG assessment?

Response by panelists:

The effectiveness of board and audit committee assessments largely depends on the quality of the members and the integrity of the assessment process. While the PICG assessments are conducted, there have been concerns about their independence. However, when boards proactively invite PICG representatives to present their findings, the impact and credibility of the assessment process significantly improve.

Other Comments

Raised the point that major governance problems exist in other listed PICs. The issues were highlighted like regulator pressure, board announcements without follow-up, and auditors doing unauthorized audits (with responsibility also on boards/ audit committees who recommended them). It was suggested that these companies requiring more detailed discourse with SECP for boards/ audit committees to understand their responsibilities

Session 2: Panel Discussion with Audit Partners

Left to Right - Mr. Khurram Jameel, Partner, Grant Thornton Anjum Rehman & Member, Auditing Standards & Ethics Board, Mr. Salman Hussain, Territory Senior Partner, A. F. Ferguson & Co., Mr. Farrukh Rehman, ICAP Council Member & Chairman Auditing Standards & Ethics Board, Ms. Hina Usmani, ICAP Council Member & Member, Auditing Standards & Ethics Board, Mr. Omer Chughtai, Partner, EY Ford Rhodes, Mr. Zulfikar Ali Causer, Partner, BDO Ebrahim & Co. and Mr. Muhammed Waseem, Partner, Rahman Sarfaraz Rahim Iqbal Rafiq

Summary of Panel Discussion

- The panel explored the role of auditors in maintaining independence while fulfilling increasing regulatory demands and the value of early and transparent communication of auditors with their audit committees.
- The IESBA Code of Ethics was presented as a blueprint for fostering collaboration and ethical conduct.
- The panelists emphasized the need to address the adequate auditor's remuneration in view of the enhanced regulatory requirements and to attract the necessary talent and commitment.
- The need for the audit firms to invest in educating their partners and staff on the emerging issues, like AI, digital transformation of companies, ESG etc. and recruiting well-qualified audit committee members were also highlighted.
- Focused on improving communication among, auditors, audit committee and regulators through more interactive methods, such as, agenda specific meetings and virtual calls, rather than solely relying on formal correspondence.

Key matters discussed in the Panel Discussion

Adequacy of Audit Committee Composition and Inclusion of Cross-Industry Professionals

Mr. Salman Hussain emphasized that the existing requirements—such as financial literacy, independence, and non-executive status—are broadly sufficient, but effectiveness hinges more on the members' time commitment, proactive engagement with auditors, and ability to foster the right culture. It's less about formal qualifications and more about understanding business risks and encouraging continuous learning. Adequate internal systems and resources are also key.

Mr. Omer Chughtai added that while the current framework is a solid base, there is definitely room for improvement. As ESG and IT gain prominence, audit committees need a broader skillset. Likewise, legal expertise is particularly important for handling contingencies. Ultimately, time spent analyzing materials and engaging deeply matters more than meeting formal criteria.

Differences in Engagement When Acting as Assurance Partner vs. Firm Head

Mr. Salman explained that in both roles, interactions with audit committees have been positive, particularly with audit committee chairman who are open to address flagged concerns. The companies meeting at least three times a year promotes transparency and good communication.

Readiness of Audit Committees and Regulators for Emerging areas – ESG, AI & Technology-Driven Changes

Mr. Zulfiqar described that AI is transforming the financial and reporting landscape globally and is slowly emerging in Pakistan. Young professionals are more adaptable, but structured training is still essential. Audit committees, however, need significant capacity building. If committees don't understand technological implications, critical risks may get redirected to IT committees and escape audit scrutiny. Understanding how AI intersects with financial oversight is becoming a necessity.

Mr. Waseem further added that including professionals with expertise in AI, cybersecurity, and other emerging fields would strengthen audit committees. Mr. Badruddin Villani is a good example—his participation on multiple boards has demonstrably improved committee performance.

Increasing Challenges in Maintaining Auditor Independence under ICAP Code of Ethics (Revised 2024)

Mr. Waseem shared that he has never personally experienced a situation where his independence was compromised during his career, however, challenges do surface from time to time. In such instances, it's essential for auditors to communicate their position clearly and remain anchored in the principles of public trust and professional ethics.

Mr. Salman supported that audit committees often lack clarity on what constitutes a threat to independence, especially regarding non-audit services. They need to understand which services are restricted under laws and regulations, what requires approval, and how these choices impact the audit's objectivity.

Mr. Omer stressed that non-assurance services are already governed by existing regulations, but the revisions on audit fees and non-assurance services provisions will strengthen independence. However, we in Pakistan should adopt solutions that are context-specific rather than merely copying international practices / rules.

Gaps in Understanding of Audit Process Among Auditors, Audit Committees, and Regulators and how it can be bridged

Mr. Salman shared his thoughts that a clear gap exists, as many audit committees meet only once a year and often treat meetings as a formality. What's needed is ongoing interaction, especially during the audit planning stage. Committees should ask deeper questions and set quality benchmarks. Too often, management letters aren't given enough attention—discussing key control issues shouldn't be delayed by 45 days.

Effective oversight requires deeper involvement during audit planning, asking better questions, and giving due attention to the management letters. Sharing insights from the internal audit and integrating internal, external and regulatory assurance processes would significantly improve governance. Ultimately, more time and openness from all sides are required.

Mr. Zulfiqar agreed that there is a persistent expectation gap. Regulators and some committee members often expect auditors to detect frauds (beyond what is required under ISA 240 or misunderstand principles like materiality and sampling. For example, under ISA 240, auditors have a limited role in fraud detection—yet expectations often exceed that. Materiality is another misunderstood area, as is the rationale behind sampling. Excessive regulatory focus on immaterial issues can be counterproductive

Similarly, audit committees sometimes rush audit timelines, setting meeting dates before financials are even ready. Bridging these gaps requires ongoing advocacy, education, and engagement with both regulators and the board / board audit committees.

Comments from Audience:

Comments & Suggestions from Mr. Zafar Sobani – ICAP Past President

Mr. Sobani shared insights on what should be done based on his 20 years of audit committee experience.

***Audit Committee** Composition*: Definitely needs to change, younger people should come on the committee with relevant experience. Existing members lack capacity for ESG, cyber security and IT risks; and for these areas, specialists are needed.

***Meeting External Auditors*:** Few companies do this regularly. Recommends meeting auditors at least 2-3 times before the audit is closed, not just a hurried meeting at the end. Management and the Board Chairman should ensure the Audit Committee Chairman meets regularly with auditors.

Timing of Meetings: Audit committee and board meetings should ideally not be on the same day for listed companies. There should be at least a one-day gap.

Synopsis/Minutes: If there isn't enough time for minutes before the board meeting, a comprehensive synopsis should be prepared by the Chairman and circulated. If synopsis is not possible, the full minutes must go to all board members as per rules that need to be followed.

Management Letter: It takes time, but in the meeting discussing financial statements, external auditors should at least discuss major critical internal control weaknesses of the company, and shouldn't wait for the management letter to be sent after 45 days. Detailed management letter discussions can be sent later.

Board Engagement: The Board doesn't take financial statements seriously enough -if the audit committee reviews and recommend, the Board approves. Board members should spare time and ask deeper questions as the approval responsibility lies on the Board, not on the audit committee.

Questions from Audience

Question 1: With increased laws and regulations increasing the auditor's job and scope, how are auditors coping with attrition (people leaving the country)? How are resources kept to maintain service levels? Is this a problem going forward?

Response by panelist:

The panelists responded that attrition is a serious challenge, driven by economic uncertainty and strong overseas demand for Pakistani professionals. It's not just attrition—two big audit firms have significantly scaled down or exited their Pakistan operations, which damages trust in the ecosystem. Firms must keep investing in technology, training, and people—especially in emerging areas like ESG and AI. Regulators should also investigate why firms are leaving and act to maintain a sustainable environment.

Audience Point/Suggestion

A suggestion for internal audit reports: Since audit committee members review a lot of data, internal audit reports should communicate risk levels more clearly and concisely from the top. For example, instead of detailed observations, state the high-level risk (e.g., 'Risk of fire because fire alarm is not working' or 'Risk of theft because CCTV is not working') to help audit committees reach more desirable conclusions.

Response by Panelists:

The panelists responded that Internal audit reports often get bogged down in detail, making it hard for committees to quickly understand the core risk. Clear, top-line risk articulation would improve decision-making. On a broader note, the regulatory environment needs a rethink. Young professionals face low fees, unrealistic expectations, and psychological stress. Auditors also fear being named in the media for issues beyond their scope. A coordinated regulatory approach is needed, focusing on material concerns and ensuring a safe, professional space.

ICAP

Closing Remarks
Mr. Farrukh Rehman, Chairman, ASEB

Mr. Farrukh Rehman, Chairman of ASEB and ICAP Council Member, delivered closing remarks highlighting the evolving regulatory landscape and the roles of key stakeholders in enhancing audit quality and governance.

He thanked regulators, audit committee members, listed company representatives, and audit partners for their participation and welcomed active involvement from oversight bodies like SECP, SBP, AOB, and the IESBA. Mr. Rehman discussed stakeholder feedback on the quality of audited financial statements and emphasized the need for auditors to better meet expectations.

He addressed the significance of auditor's independence matter including new board's initiative on maintaining registers of non-audit services by audit firms, regulators discussion on enhancing auditors reporting on additional matters like withholding tax and related party transactions, under "Other Legal and Regulatory Requirements," section of auditor's report.

Concern was raised over increasing sector-specific accounting exemptions, urging a move toward principle-based standards. He also highlighted revisions of ISA 240 removing "inherent limitations" on fraud detection, urging audit committees to enhance oversight.

On sustainability reporting, Mr. Rehman outlined SECP's phased rollout starting July 2025, affecting major market players, and encouraged early preparation for reporting and assurance.

He briefed on ASEB's initiatives: formation of five working groups on audit quality, independence, technical enquiries, sustainability assurance standard and capacity building, development of a local audit market database, initiatives for effective enforcement of ISQM 1, and frameworks for modern audit practices aligned with global standards.

Concluding Remarks

Mr. Rehman thanked participants and announced ***upcoming sessions with Audit Committee in Lahore and Islamabad*** to continue engagement and drive improvements in audit quality and governance

Conclusion & Key Takeaways

A trailblazing session with Audit Committee Chairs and auditors of listed companies of Karachi served as a unique platform to align stakeholders, deepen mutual understanding, and promote ethical governance in Pakistan's corporate sector. The session featured keynote addresses from esteemed representatives of the SECP, SBP, AOB, and IESBA, alongside panel discussions that dissected practical challenges and opportunities for reform.

The session marked as a vital step toward closing communication gaps among key oversight actors. It served as a timely reminder that effective oversight is a shared responsibility—one that requires open dialogue, ethical alignment, and sustained regulatory cooperation. Through continuous coordination through stakeholder engagement and thematic guidance, we can restore trust, promote ethical conduct, and raise the bar of quality audits in Pakistan.

Regulatory Voices: Expectations and Accountability

SECP

SECP stressed the importance of audit committees as vehicles for accountability, investor confidence, and corporate transparency. Highlighting recent enforcement actions, he underscored that boards and audit committees—not just auditors—are now under closer scrutiny.

AOB reinforced this message, that audit committee is the first line of defence, reminding boards and audit committees of listed companies to appoint only eligible audit firms registered with the AOB and holding a valid quality control review (QCR) rating, noting instances of non-compliance and subsequent enforcement actions. The significance of boards and its committee's capacity building is also a need of time.

IESBA reinforced the importance of fostering a culture of integrity, independence, transparency, and accountability across all audit engagements, by emphasizing the strengthened auditor independence requirements of latest IESBA Code of Ethics that now requires robust engagement between auditors and those charged with governance of Public Interest Entities for non-assurance services and audit fees.

SBP supported the collaborative governance and technological adoption. He called for integrated assurance mechanisms, audit committee capacity building, and stronger engagement between auditors and financial regulators, emphasizing that the strength of the financial system relies on the interconnected trust and collaborative resilience of auditors, regulators, and audit committees.

Key global trends of audit committee's effectiveness were presented - from cybersecurity and AI to ESG there is a need for skilled, independent, and proactive audit committees with a broader understanding of emerging risks, independent performance evaluations of audit committees and boards, documentation, and clear meeting protocols.

Voices from the Field

Bridging Gaps and Raising the Bar

Key Takeaways from the Panel Discussion with Audit Committee Chairs

- The panel shed light on the practical challenges like risk overload, heavy risk agendas shouldered by audit committees, circular debt issue in the energy sector, attracting and retaining talent, need to bridge information asymmetry, and improve regulatory fragmentation.
- A need to have dedicated risk subcommittees, stronger whistleblower mechanisms to surface issues sooner and support auditors in identifying risks early and diligent follow-up on reported issues was highlighted to timely address the irregularities to prevent systemic risks.
- The Board needs to understand its role which shouldn't overlap with audit committee regulatory responsibilities.
- The most pressing issues are around ESG disclosures and cybersecurity risk management, where audit committees often lack in-house expertise and should consider external resources and also strive for meaningful and timely voluntary disclosures to meet rising investor expectations.
- Audit committees were urged to be active ethical leaders, questioning, challenging, and effective decision-makers to safeguard financial reporting integrity, simultaneously managing their workload and time commitment for effective oversight.
- Culture must cascade from the board down. Audit committees should work proactively with both internal and external auditors, identifying early red flags and maintaining open channels of communication.
- The major governance problems exist in other than listed PICs, suggesting SECP to take measures for the boards and audit committees to understand their responsibility.
- The panel advocated for more technical expertise in emerging areas like, ESG, cybersecurity, AI, independent performance evaluations for boards and committees and more structured and frequent interactions between audit committees and auditors.

Key Takeaways from the Panel Discussion with Audit Partners

A panel comprising audit partners reflected on the evolving role of auditors under increased regulatory demands. The panelists emphasized the importance of independence, transparent communication, and ethical culture, while highlighting the need for the following:

- Staff training on emerging areas like ESG, AI, and cyber risk
- Emphasized adequate auditor remuneration and avoiding check-the-box culture.
- Called for interactive, continuous engagement with audit committees, not once-a-year formality.
- Reaffirmed importance of audit independence under the revised ICAP Code of Ethics 2024.
- Enhanced capacity building and continuous learning of audit partners and staff on the use of technology, AI, digital transformation of companies, sustainability reporting etc.
- Need of recruiting well-qualified audit committee member, with relevant skillset required as per company's nature .
- Noted misunderstandings about auditor responsibilities (e.g., fraud detection limits, materiality).

The event concluded with a shared commitment among participants and regulators to continue this vital dialogue and work collaboratively towards building a more resilient, transparent, and trusted financial ecosystem in Pakistan.

ICAP

Save the Date

Session with Audit Committees of Listed Companies

Bridging the Gap: Aligning Auditors, Regulators and Audit Committees

Thursday, June 26, 2025 at 10:00 AM
ICAP House, Lahore

ASEB@icap.org.pk 021-99251629

The Institute of Chartered Accountants of Pakistan