

REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the "Rules") prepared by the Board of Directors of (the "Company") for the year ended June 30, 2020.

The responsibility for compliance with the Rules is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Rules.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal control, the Company's corporate governance procedures and risks.

The Rules requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Following instances of non-compliance with the requirements of the Rules were observed which are not stated in the Statement of Compliance:

- (i) The Board has not formulated succession planning of the Chief Executive as required by rule 5(2) of the Rules.

Based on our review, except for the above instances of non-compliance, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Company for the year ended June 30, 2020.

ISLAMABAD

DATE: 30 DEC 2020


CHARTERED ACCOUNTANTS
Engagement Partner: Abdul Qadeer**BDO Ebrahim & Co. Chartered Accountants**

BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

SCHEDULE – I
[See paragraph 2(1)]

**Statement of compliance with the
Public Sector Companies (Corporate Governance) Rules, 2013**

Name of the Company: Heavy Electrical Complex (HEC)
Name of line Ministry: Ministry of Industries & Production
For the year ended: June 30, 2020

S. No.	Provision of the Rules	Rule No.	Y	N		
			Tick the relevant box			
1	The independent directors meet the criteria of independence, as defined under the Rules.	2 (d)		NA		
2	The Board has the requisite percentage of independent directors. At present the board includes:	3 (2)		<input checked="" type="checkbox"/> Under Process with MOI&P- Privatization re-initiated in August 2019		
	Category				Names	Date Of Appointment
	Independent directors					
	Executive directors				1. Syed Arshad Hussain Musavi (CEO)	04.07.2017
	Non - executive directors	1. Mr. Sajjad Haider Yaldram 2. Mr. Naeem Jan Khan 3. Mr. Naveed Nazir Ahmed	13.02.2018 06.04.2018 20.11.2019			
3	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3 (5)	<input checked="" type="checkbox"/>			
4	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as Board members under the provisions of the Act.	3 (7)	<input checked="" type="checkbox"/>			
5	The Chairman of the board is working separately from the chief executive of the Company.	4 (1)	<input checked="" type="checkbox"/>			
6	The Chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government.	4 (4)	<input checked="" type="checkbox"/>			
7	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.	5 (2)	<input checked="" type="checkbox"/>			
8	(a) The company has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place.	5 (4)	<input checked="" type="checkbox"/>	Posting on website to be done after completion of BOD		
	(b) The board has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures, including posting the same on the company's website. (Address of website to be indicated https://www.hec.net.pk)					
	(c) The Board has set in place adequate systems and controls for the identification and redress of grievances arising from unethical practices.					
9	The Board has established a system of sound internal control , to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.	5 (5)	<input checked="" type="checkbox"/>			

S. No.	Provision of the Rules	Rule No.	Y	N
			Tick the relevant box	
10	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5 (5) (b) (ii)	✓	
11	The Board has developed and implemented a policy on anticorruption to minimize actual or perceived corruption in the company.	5 (5) (b) (vi)		✓
12	The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.	5 (5) (c) (ii)	✓	
13	The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.	5 (5) (c) (iii)	✓	
14	The board has developed a vision or mission statement and corporate strategy of the company.	5 (6)	✓	
15	The board has developed significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.	5 (7)	✓	
16	The board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and have submitted its request for appropriate compensation to the Government for consideration.	5 (8)		NA
17	The Board has ensured compliance with policy directions requirements received from the Government.	5(11)	✓	
18	(a) The board has met at least four times during the year. (b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. (c) The minutes of the meetings were appropriately recorded and circulated.	6 (1) 6 (2) 6 (3)	✓ ✓ ✓	✓
19	The board has monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis* and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose. * strike out whichever is not applicable	8 (2)		✓
20	The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓	
21	(a) The board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, (b) In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors. (c) The Board has placed the annual financial statements on the company's website.	10	✓ NA ✓	
22	All the board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.	11		✓ Financial constraints
23	(a) The board has formed the requisite committees, as specified in the Rules.	12	✓	
	(b) The committees were provided with written term of reference defining their duties, authority and composition.	12	✓	
	(c) The minutes of the meetings of the committees were circulated to all the board members.	12	✓	

S. No.	Provision of the Rules			Rule No.	Y	N
					Tick the relevant box	
	(d) The committees were chaired by the following non-executive directors:					
	Committee	No. of Members	Name of Chair			
	Audit committee	Not Established	-			
	Risk management committee	Not Applicable				
	Human Resource Committee	04	Mr. Naveed Nazir Ahmed	✓		
	Procurement Committee	Not Established	-			✓
	Nomination committee	03	Mr. Naeem Jan Khan	✓		
24	The board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, by whatever name called, with their remuneration and terms and conditions of employment,			13	✓	✓
25	The Chief Financial Officer and the Company Secretary have requisite qualification prescribed in the Rules.			14	✓	
26	The company has adopted International Financial Reporting Standards notified by the Commission in terms of subsection (1) of section 225 of the Act.			16	✓	
27	The directors' report for this year has been prepared in compliance with the requirements of the Act and the Rules and fully describes the salient matters required to be disclosed.			17	✓	
28	The directors, CEO and executives, or their relatives, are not directly or indirectly, concerned or interested in any contract or arrangement entered into by or on behalf of the company except those disclosed to the company.			18	✓	
29	(a) A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place and no director is involved in deciding his own remuneration.			19	✓	
	(b) The annual report of the company contains criteria and details of remuneration of each director.				✓	
30	The financial statements of the company were duly endorsed by the chief executive and chief financial officer, before consideration and approval of the audit committee and the Board.			20	✓	
31	The board has formed an audit committee, with defined and written terms of reference, and having the following members:			21(1) and 21(2)		
	Name Of Member	Category	Professional Background			

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S. No.	Provision of the Rules	Rule No.	Y	N
			Tick the relevant box	
32	(a) The chief financial officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed. (b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditor and other executives. (c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of chief financial officer and external auditors.	21(3)		✓
33	(a) The board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee. (b) The chief internal auditor has requisite qualification and experience prescribed in the Rules. (c) The internal audit reports have been provided to the external auditors for their review.	22		✓
34	The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23 (4)	✓	
35	The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.	23 (5)	✓	

NA; Not Applicable



(SYED ARSHAD HUSSAIN MUSAVI)
Chief Executive Officer



(MUHAMMAD ZAHOOR)
Company Secretary

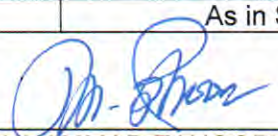
SCHEDULE – II
[See paragraph 2(3)]

**Explanation for Non-Compliance with the
Public Sector Companies (Corporate Governance) Rules, 2013**

We confirm that all other material requirements envisaged in the Rules have been complied with [except for the following, toward which reasonable progress is being made by the company to seek compliance by the end of next accounting year]

S. No.	Rule No.	Reasons for non-compliance	Future course of action
1	2(d)	The Independent Directors could not be appointed due to company being in privatization process.	After necessary formalities, Names of proposed Independent Directors against two vacancies have been sent to MOI&P in the form of two panels and approval for appointment of Independent Directors is awaited.
2	3(2)	The directors are to be appointed by the Government of Pakistan and the case is in process with MOI&P. However, the Board could not be completed due to the company being under privatization and even sold during 2015-16. Privatization process has been re-initiated in August 2019.	
11	5(5)(b)(vi)	As in SN 2	Under preparation
16	5(8)	Neither any service delivered nor any goods sold by the Company as a public service obligation	Would be complied as and when applicable
18	6(1)	Re-initiation of Privatization and COVID-19	Compliance would be ensured
19	8(2)	As in SN 2	Performance of the company and CEO is monitored by the BOD but not that of other senior officials which is monitored in the Form of Annual Confidential Reports by CEO HEC as well as Chairman SEC
22	11	As in SN 2	Will be arranged after appointment of Independent Directors
23(a)	12	As in SN 2; Partially complied	As in SN 1
23(b)	12	As in SN 2; Partially complied	As in SN 1
23(d)	12	Audit and Procurement Committees yet to be constituted	As in SN 1
24	13	While the role of CFO and Company Secretary has been entrusted to a DGM (Fin & Accts) who was already an employee of the Holding Corporation with the related terms and conditions, Chief Internal Auditor is yet to be appointed	As in SN 1
31	21	As in SN 2	As in SN 1
32	21(3)	Audit Committee yet to be formed	As in SN 1
33	22	As in SN 2	As in SN 1


(SYED ARSHAD HUSSAIN MUSAVI)
Chief Executive Officer


(MUHAMMAD ZAHOOR)
Company Secretary