

**SRI LANKA RELATED SERVICES PRACTICE STATEMENT
4752**

**ENGAGEMENTS TO REPORT ON THE COMPLIANCE WITH
THE CORPORATE GOVERNANCE DIRECTIVE ISSUED BY
THE CENTRAL BANK OF SRI LANKA FOR FINANCE
COMPANIES**

(Effective for engagements commencing on or after 1 January, 2016)

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Introduction

- 1 The purpose of this Sri Lanka Related Services Practice Statement 4752 (SLRSPS 4752) is to establish Standards and provide guidance on the directions issued by the Central Bank of Sri Lanka (CBSL), on Corporate Governance for Licensed Finance Companies, Section 3(2) of the Finance Companies (Corporate Governance - Amendment) Direction, No. 06 of 2013 issued under the Finance Business Act, No. 42 of 2011. These directions require the external auditor of the finance company to report on the finance company's compliance with the corporate governance directions in the corporate governance reports published by the finance companies after 1 January 2016.
- 2 The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) was requested by the CBSL to develop a guidance to practitioners to comply with the above direction. CA Sri Lanka considered international practice and technical guidance in audit practices to formulate an "agreed upon procedure" under the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400).
- 3 CA Sri Lanka believes this practice statement will provide a useful guidance to practitioners. This guidance also illustrates the responsibilities of auditors and directors in fulfilling the requirements enunciated by the above direction issued by the CBSL. In addition, illustrations of an engagement letter, report and an annexure to the report on factual findings are provided to assist the practitioners in reporting requirements.

Illustration of an engagement letter for agreed-upon procedures engagement to comply with the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and No.06 of 2013 amendment issued under the Finance Business Act, No. 42 of 2011 issued by the Central Bank of Sri Lanka

To the Board of Directors or other appropriate representatives of the client who engaged the auditor.

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the principles set out in Sri Lanka Standards on Related Service 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements and we will indicate so in our report.

We have agreed to perform the procedures listed under the annexure 'A' and report to you the factual findings resulting from our work

(Describe where relevant the timing and extent of the procedures to be performed in annexure 'A' including specific reference, where applicable, to the identity of documents and records to be reviewed, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures that we will perform are solely to assist you, to meet the compliance requirement of the directive on corporate governance issued by the Central Bank of Sri Lanka. Our report is not to be used for any other purpose and is solely for your information.

The procedures that we will perform will not constitute an audit or a review made in accordance with Sri Lanka Auditing Standards and consequently, no assurance will be expressed.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement.

Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

(Additional terms and conditions may be added by the auditors)

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures which we have agreed will be performed.

XYZ & CO.

Acknowledged on behalf of ABC Finance Company PLC by

(signed)

Name and Title

Date

Illustration of a report of factual findings in connection with the corporate governance direction issued by the Central Bank of Sri Lanka

REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated in an annexure to this report, with respect to the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL). Our engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Service 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directions.

We report our findings below:

(List the results of the procedures performed)

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, we do not express any assurance on the compliance with the directions of Corporate Governance issued by CBSL.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Sri Lanka Auditing Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of ABC Finance company PLC, taken as a whole.

AUDITOR

Date

Address

Agreed upon procedures to be followed by the practicing auditor

NOTE: The below mentioned numbering is used to coincide with the “section 2” of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and No. 6 of 2013 amendment issued by the Central Bank of Sri Lanka.

2 The Responsibilities of the Board of Directors

- 2(1) a)** Check the board approval of the finance company’s strategic objectives and corporate values.

Check whether the finance company has communicated the finance company’s strategic objectives and corporate values throughout the finance company.

- b)** Check the board approval of the overall business strategy of the finance company.

Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.

Check that the overall business strategy contains measurable goals, for at least the next three years.

- c)** Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.
- d)** Check that the board has approved and implemented a policy of communication with all stakeholders including depositors, creditors, shareholders and borrowers.
- e)** Check that the board has reviewed the adequacy and the integrity of the finance company’s internal control systems and management information systems.

- f) Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards/ CBSL direction, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.
 - g) Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel.
 - h) Check that the board has exercised appropriate oversight of the affairs of the finance company by key management personnel that is consistent with board policy.
 - i) Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.
 - j) Check that the board has a succession plan for key management personnel.
 - k) Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.
 - l) Check that the board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators.
 - m) Check that the board has a process in place for hiring and oversight of external auditors.
- 2(2)** Check that the board has appointed the Chairman and the Chief Executive Officer (CEO).

Check that the functions and responsibilities of the Chairman and the CEO are in line with Paragraph 7 of the Corporate Governance Direction.

- 2(3)** Check that there are procedures determined and resolved by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense.

- 2(4) Check that a director has abstained from voting and not be counted in quorum on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.
- 2(5) Check that the board has a formal schedule of matters specifically reserved to it for decisions.
- 2(6) Check that the board has identified events where it is unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors and informed the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.
- 2(7) Check that the board publishes, in the finance company's Annual Report, an annual corporate governance report setting out the compliance with these Directions.
- 2(8) Check that the board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.

3 Meetings of the Board

- 3(1) Check that the board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals.
Check whether consent of the board has been obtained through the circulation of written or electronic resolutions/papers.
- 3(2) Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.
- 3(3) Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice has been given.
- 3(4) Check that the directors have met with the attendance requirements. (at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held). Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.
- 3(5) Check that the board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.

- 3(6) Check whether the Chairman has delegated the responsibility for preparing the Agenda for the Board Meeting. If so the company secretary shall be responsible for carrying out such function.
- 3(7) Check whether there is a documented process in place for directors to have access to advice and services of the company secretary in relation to Board procedures on, applicable laws, rules, directions and regulations.
- 3(8) Check that the company secretary maintains the minutes of board meetings and prepares the minutes within a reasonable time and has a documented process for the minutes to be inspected by the directors
- 3(9) Check that the minutes of a board meeting contain or refer to the following:
- (a) summary of data and information used by the board in its deliberations
 - (b) the matters considered by the board
 - (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence, including the names of the directors;
 - (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;
 - (e) the understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and
 - (f) the decisions and board resolutions.

4 Composition of the Board

- 4(1) Check that the board comprise of not less than 5 and not more than 13 directors.
- 4(2) Check that the total period of service of a director other than a director who holds the position of CEO, or executive director does not exceed nine years. (The period of non-executive director shall be inclusive of total period of service, served up to the date of this direction).
- 4(3) Check that the number of executive directors, including the CEO does not exceed one- half of the number of directors of the board.

4(4) Check that the board has at least one fourth of independent non-executive directors of the total number of directors,

Non-executive directors cannot be considered independent if he/she:

- a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;
- b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;
- c) as been employed by the finance company during the two year period immediately preceding the appointment as director;
- d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.
- e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;
- f) is an employee or a director or has a shareholding of 10% or more of the paid up capital in a company or business organization:
 - i. which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or
 - ii. in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10 % of the capital funds as shown in its last audited balance sheet of the finance company; or
 - iii. in which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited Statement of Financial Position of the finance company.

4(5) Check whether the alternate director appointed to represent an independent non-executive director meets with the criteria for independent non-executive directors

4(6) Ensure non-executive directors have necessary skills, qualifications and experience especially in banking, finance to bring an objective judgment to bear on issues of strategy, performance and resources.

- 4(7) Check whether the required quorum had been present and at least 50% of the directors present at the meetings were non-executive directors.
- 4(8) Check whether in all corporate communications where the names of the directors are disclosed, independent non-executive directors are expressly identified.
- Check whether the Annual Corporate Governance Report which is a part of the Annual Report has disclosed the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors
- 4(9) Check the procedure for the appointment of new directors and orderly succession of appointments to the board.
- 4(10) Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.
- 4(11) Check whether the board has announced to the shareholders and notified the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation or removal of directors giving the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the board,

5 Criteria to assess the fitness and propriety of directors

- 5(1) Check that the age of a person who serves as director does not exceed 70 years.
- 5(2) Check if a person holds office as a director of more than 20 companies / societies/body corporates inclusive of subsidiaries or associate companies of the finance company.

6 Management functions delegated by the board

- 6(1) Check whether the functions delegated by the board ensure that it does not hinder or reduce the ability of the Board as a whole to discharge its functions.
- 6(2) Check that the board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.

7 The Chairman and CEO

- 7 (1) Check that the roles of chairman and CEO is separated and not performed by the same individual.

- 7(2)** Check that the chairman is a non-executive director.
In the case where the chairman is not an independent non - executive director, check that the board designates an independent non- executive director as the senior director with suitably documented terms of reference.
- Check that the designation of the senior director be disclosed in the finance company's Annual Report.
- 7(3)** Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and relationships among members of the board.
- 7(4)** Check whether the board evaluation process covers the following; where the Chairman:
- (a) provides leadership to the board;
 - (b) ensures that the board works effectively and discharges its responsibilities; and
 - (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.
- (Should have been conducted at least annually).
- 7(5)** Check that a formal agenda is circulated by the company secretary approved by the chairman.
- 7(6)** Check that the agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting.
- 7(7)** Peruse at least three board minutes to ensure that the board members have adequately contributed to the decisions.
- 7(8)** Peruse at least three board minutes to ensure that the Chairman facilitates the contribution of non- executive directors and ensures constructive relationships between executive and non – executive directors.
- 7(9)** Peruse the organizational chart approved by the board and inquire from the key management personnel whether they are under the supervision of the Chairman.
- 7(10)** Check the process adopted by the Chairman of the Company to communicate with the shareholders and how the views of shareholders are communicated to the board.
- 7(11)** Peruse the organizational chart approved by the board to ensure that the CEO functions as the apex of the company.

8 Board appointed committees

8(1) Check that the finance company has established an Audit Committee and an Integrated Risk Management Committee. .

8(2) Audit Committee:

- a) Check that the chairman of the committee is a non-executive director and possesses qualifications and experience in accounting and/or audit.
- b) Check that all members of the committee are non-executive directors.
- c) Check that the committee has made recommendations on matters in connection with:
 - (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;
 - (ii) the implementation of the Central Bank guidelines issued to auditors from time to time;
 - (iii) the application of accounting standards;
- d) Check whether the committee has established a policy in relation to the service period, audit fee and any resignation or dismissal of the auditor; This policy should address that the engagement partner does not exceed five years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
- e) Check that the committee has obtained representations from the external auditor's on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAuS.
- f) Check that the committee has implemented a policy on the engagement of an external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services (in accordance with Sec 8 2(e) of the regulations).
- g) Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors including
 - (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;
 - (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and
 - (iii) the co-ordination between auditors where more than one auditor is involved.

- h) Check that the committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes;
 - (i) major judgmental areas;
 - (ii) any changes in accounting policies and practices;
 - (iii) the going concern assumption;
 - (iv) the compliance with relevant accounting standards and other legal requirements, and;
 - (v) in respect of the annual financial statements the significant adjustments arising from the audit.
- i) Check that the committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which needs to be discussed in the absence of the executive management by perusing the minutes
- j) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.
- k) Check that the committee has taken the following steps with regard to the internal audit function of the finance company:
 - i. Established the internal audit charter which covers the scope and functions of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work.
 - ii. Reviewed the resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work;
 - iii. Reviewed the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department ;
 - iv. Reviewed any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;
 - v. Recommended the appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;

- vi. Checked that the committee has been informed of all resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers and has provided an opportunity for them to give the reasons for their resignations
 - vii. Examined the organization chart and terms of reference and ensure that the internal audit function is independent of the activities it audits.
 - viii. Checked that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care
- l) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.
 - m) Check that the committee has met the external auditors without the executive management at least once in six months.
 - n) Check that the audit committee has an approved terms of reference which includes;
 - (i) explicit authority to investigate into any matter;
 - (ii) the resources which it needs to do so;
 - (iii) full access to information; and
 - (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
 - o) Check that the committee has met regularly and maintained minutes.
 - p) Check that the annual report contains a report from the Audit Committee which includes the following,
 - (i) details of the duties and functions of the committee
 - (ii) details of the activities of the audit committee;
 - (iii) the number of audit committee meetings held in the year; and
 - (iv) details of attendance of each individual director at such meetings
 - q) Check that the secretary of the committee is the company secretary or the head of the internal audit function.

- r) Check that the “whistle blower” policy covers the process of dealing with;
 - i) The improprieties in financial reporting, internal control or other matters.
 - ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and
 - iii) Appropriate follow-up action.
 - iv) Protection of the whistle blower

8(3) Integrated Risk Management Committee (IRMC):

- a) Check that the committee consists of at least one non-executive director, CEO and key management personnel supervising broad risk categories, *i.e.*, credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.
- b) Check that the committee has a documented process to capture and assess all risks, *i.e.*, credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.
- c) Check that the committee has evaluated functions carried out by all management level committees such as the credit committee and the asset-liability committees, in relation addressing specific risks and managing these risks.
- d) Check that the committee has taken prompt actions in accordance with the policies on risks which have gone beyond the specified levels as decided by the committee.
- e) Check the committee has met at least quarterly to assess all aspects of risk management by perusing the minutes
- f) Check that the committee has taken appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- g) Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.
- h) Check that the committee has established a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.

9 Related party transactions

- 9(1)** The Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 shall be considered in addition to the following.
- 9(2)** Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the finance company with a related party as defined in the direction no 3 of 2008 paragraph 9
- 9(3)** Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.
 - a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.
 - b) The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.
 - c) The provision of any services of a financial or non-financial nature provided to the finance company or received from the finance company.
 - d) The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.

- 9(4)** Does the board have a process to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the finance company carrying on the same business.
- a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the finance company’s regulatory capital, as determined by the board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company’s share capital and debt instruments with a remaining maturity of 5 years or more.
 - b) Charging of a lower rate of interest than the finance company’s best lending rate or paying more than the finance company’s deposit rate for a comparable transaction with an unrelated comparable counterparty.
 - c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;
 - d) Providing services to or receiving services from a related-party without an evaluation procedure;
 - e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.

10 Disclosures

10(1) Check that the board has disclosed:

- (a) Annual audited financial statements and periodical financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards,
- (b) that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.

10(2) Check that the board has made the following minimum disclosures in the Annual Report:

- a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.
 - b) The report by the board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements
 - c) Details of directors, including names, transactions with the finance company.
 - d) Fees and remuneration paid to directors in aggregate.
 - e) Total net accommodation as defined in paragraph 9(4) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the finance company's capital funds.
 - f) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.
 - g) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances
 - h) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, rules and Directions that have been communicated by the Director of the Department of supervision of Non – Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns
 - i) A statement indicating that the board has obtained a factual findings report on the compliance with the corporate governance direction.
- 11** Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above.

Questionnaire for compliance officers of finance companies

NOTE: The below mentioned numbering is used to coincide with the “section 2” of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and No. 6 of 2013 amendment issued by the Central Bank of Sri Lanka.

2	The responsibilities of the board		Complied	Not complied	N/A	Reference
2(1)	a)	<p>Check the board approval of the finance company’s strategic objectives and corporate values.</p> <p>Check whether the finance company has communicated the finance company’s strategic objectives and corporate values throughout the finance company.</p>				
	b)	<p>Check the board approval of the overall business strategy of the finance company.</p> <p>Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>Check that the overall business strategy contains measurable goals, for at least the next three years.</p>				
	c)	<p>Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.</p>				
	d)	<p>Check that the board has approved and implemented a policy of communication with all stakeholders including depositors, creditors, share-holders and borrowers.</p>				

e)	Check that the board has reviewed the adequacy and the integrity of the finance company's internal control systems and management information systems.				
f)	Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards/ CBSL direction, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.				
g)	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel.				
h)	Check that the board has exercised appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with board policy.				
i)	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.				
j)	Check that the board has a succession plan for key management personnel.				
k)	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.				

	l)	Check that the board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators.				
	m)	Check that the board has a process in place for hiring and oversight of external auditors.				
2(2)		Check that the board has appointed the Chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with Paragraph 7 of the Corporate Governance Direction.				
2(3)		Check that there are procedures determined and resolved by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense.				
2(4)		Check that a director has abstained from voting and not be counted in quorum on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.				
2(5)		Check that the board has a formal schedule of matters specifically reserved to it for decisions.				
2(6)		Check that the board has identified events where it is unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors and informed the Director of the Department of Supervision of Non- Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.				

2(7)	Check that the board publishes, in the finance company's Annual Report, an annual corporate governance report setting out the compliance with these Directions.				
2(8)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.				
3	Meetings of the Board				
3(1)	Check that the board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals. Check whether consent of the board has been obtained through the circulation of written or electronic resolutions/papers.				
3(2)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.				
3(3)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice has been given.				
3(4)	Check that the directors have met with the attendance requirements. (at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held). Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.				
3(5)	Check that the board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.				

3(6)	Check whether the Chairman has delegated the responsibility for preparing the Agenda for the Board Meeting. If so the company secretary shall be responsible for carrying out such function.				
3(7)	directors to have access to advice and services of the company secretary in relation to Board procedures on, applicable laws, rules, directions and regulations.				
3(8)	Check that the company secretary maintains the minutes of board meetings and prepares the minutes within a reasonable time and has a documented process for the minutes to be inspected by the directors				
3(9)	<p>Check that the minutes of a board meeting contain or refer to the following:</p> <ul style="list-style-type: none"> (a) a summary of data and information used by the board in its deliberations (b) the matters considered by the board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence, including the names of the directors; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions. 				
4	Composition of the Board				
4(1)	Check that the board comprise of not less than 5 and not more than 13 directors.				

4(2)	Check that the total period of service of a director other than a director who holds the position of CEO, or executive director does not exceed nine years. (The period of non-executive director shall be inclusive of total period of service, served up to the date of this direction).				
4(3)	Check that the number of executive directors, including the CEO does not exceed one- half of the number of directors of the board.				
4(4)	Check that the board has at least one fourth of independent non- executive directors of the total number of directors, Non-executive directors cannot be considered independent if he/she:				
	a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;				
	b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;				
	c) has been employed by the finance company during the two year period immediately preceding the appointment as director;				
	d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.				
	e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;				

	<p>f) is an employee or a director or has a shareholding of 10% or more of the paid up capital in a company or business organization:</p> <p>i. which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or</p> <p>ii. in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10 % of the capital funds as shown in its last audited balance sheet of the finance company; or</p> <p>iii. in which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited Statement of Financial Position of the finance company.</p>				
4(5)	Check whether the alternate director appointed to represent an independent non-executive director meets with the criteria for independent non-executive directors				
4(6)	Ensure non-executive directors have necessary skills, qualifications and experience especially in banking, finance to bring an objective judgment to bear on issues of strategy, performance and resources.				
4(7)	Check whether the required quorum had been present and at least 50% of the directors present at the meetings were non- executive directors.				

4(8)	<p>Check whether in all corporate communications where the names of the directors are disclosed, independent non-executive directors are expressly identified.</p> <p>Check whether the Annual Corporate Governance Report which is a part of the Annual Report has disclosed the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors</p>				
4(9)	Check the procedure for the appointment of new directors and orderly succession of appointments to the board.				
4(10)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.				
4(11)	Check whether the board has announced to the shareholders and notified the Director of the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation or removal of directors giving the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the board,				
5	Criteria to assess the fitness and propriety of directors				
5(1)	Check that the age of a person who serves as director does not exceed 70 years.				
5(2)	Check if a person holds office as a director of more than 20 companies/societies/body corporates inclusive of subsidiaries or associate companies of the finance company.				
6	Management functions delegated by the board				
6(1)	Check whether the functions delegated by the board ensures that it does not hinder or reduce the ability of the Board as a whole to discharge its functions.				

6(2)	Check that the board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.				
7	The Chairman and CEO				
7(1)	Check that the roles of chairman and CEO is separated and not performed by the same individual.				
7(2)	<p>Check that the chairman is a non-executive director.</p> <p>In the case where the chairman is not an independent non - executive director, check that the board designates an independent non-executive director as the senior director with suitably documented terms of reference.</p> <p>Check that the designation of the senior director be disclosed in the finance company's Annual Report.</p>				
7(3)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and relationships among members of the board.				
7(4)	<p>Check whether the board evaluation process covers the following; where the Chairman:</p> <p>(a) provides leadership to the board;</p> <p>(b) ensures that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensures that all key and appropriate issues are discussed by the board in a timely manner.</p> <p>(Should have been conducted at least annually).</p>				

7(5)	Check that a formal agenda is circulated by the company secretary approved by the chairman.				
7(6)	Check that the agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting.				
7(7)	Peruse at least three board minutes to ensure that the board members have adequately contributed to the decisions.				
7(8)	Peruse at least three board minutes to ensure that the Chairman facilitates the contribution of non-executive directors and ensures constructive relationships between executive and non – executive directors.				
7(9)	Peruse the organizational chart approved by the board and inquire from the key management personnel whether they are under the supervision of the Chairman.				
7(10)	Check the process adopted by the Chairman of the Company to communicate with the shareholders and how the views of shareholders are communicated to the board.				
7(11)	Peruse the organizational chart approved by the board to ensure that the CEO functions as the apex of the company.				
8	Board appointed committees				
8(1)	Check that the finance company has established an Audit Committee and an Integrated Risk Management Committee. .				
8(2)	Audit Committee:				
	a) Check that the chairman of the committee is a non-executive director and possesses qualifications and experience in accounting and/or audit.				
	b) Check that all members of the committee are non-executive directors.				

	<p>c) Check that the committee has made recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of accounting standards;</p> <p>(d) Check whether the committee has established a policy in relation to the service period, audit fee and any resignation or dismissal of the auditor; This policy should address that the engagement partner does not exceed five years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>				
	<p>e) Check that the committee has obtained representations from the external auditor's on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAuS.</p>				
	<p>f) Check that the committee has implemented a policy on the engagement of an external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services (in accordance with Sec 8 2(e) of the regulations).</p>				

g)	<p>Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors including</p> <ul style="list-style-type: none"> i. an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; ii. the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and iii. the co-ordination between auditors where more than one auditor is involved. 				
h)	<p>Check that the committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes;</p> <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit. 				

i)	Check that the committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which needs to be discussed in the absence of the executive management by perusing the minutes				
j)	Check that the committee has reviewed the external auditor's management letter and the management's response thereto.				
k)	<p>Check that the committee has taken the following steps with regard to the internal audit function of the finance company:</p> <p>(i) Established the internal audit charter which covers the scope and functions of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work.</p> <p>(ii) Reviewed the resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work;</p> <p>(iii) Reviewed the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the</p>				

		<p>(iv) Reviewed any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>(v) Recommended the appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(vi) Checked that the committee has been informed of all resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers and has provided an opportunity for them to give the reasons for their resignations</p> <p>(vii) Examined the organization chart and terms of reference and ensure that the internal audit function is independent of the activities it audits.</p> <p>(viii) Checked that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care</p>				
	l)	Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.				
	m)	Check that the committee has met the external auditors without the executive management at least once in six months.				

n)	<p>Check that the audit committee has an approved terms of reference which includes;</p> <p>(i) explicit authority to investigate into any matter;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>				
o)	<p>Check that the committee has met regularly and maintained minutes.</p>				
p)	<p>Check that the annual report contains a report from the Audit Committee which includes the following,</p> <p>(i) details of the duties and functions of the committee</p> <p>(ii) details of the activities of the audit committee;</p> <p>(iii) the number of audit committee meetings held in the year; and</p> <p>(iv) details of attendance of each individual director at such meetings</p>				
q)	<p>Check that the secretary of the committee is the company secretary or the head of the internal audit function.</p>				
r)	<p>Check that the “whistle blower” policy covers the process of dealing with;</p> <p>(i) The improprieties in financial reporting, internal control or other matters.</p> <p>(ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>(iii) Appropriate follow-up action.</p> <p>(iv) Protection of the whistle blower</p>				

8(3)	Integrated Risk Management Committee (IRMC):				
	a) Check that the committee consists of at least one non-executive director, CEO and key management personnel supervising broad risk categories, <i>i.e.</i> , credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.				
	b) Check that the committee has a documented process to capture and assess all risks, <i>i.e.</i> , credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.				
	c) Check that the committee has evaluated functions carried out by all management level committees such as the credit committee and the asset-liability committees, in relation addressing specific risks and managing these risks.				
	d) Check that the committee has taken prompt actions in accordance with the policies on risks which have gone beyond the specified levels as decided by the committee.				
	e) Check the committee has met at least quarterly to assess all aspects of risk management by perusing the minutes				

	f)	Check that the committee has taken appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.				
	g)	Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.				
	h)	Check that the committee has established a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.				
9	Related party transactions					
9(1)	The Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 shall be considered in addition to the following.					
9(2)	Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the finance company with a related party as defined in the direction no 3 of 2008 paragraph 9.					
9(3)	Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.					

	a)	The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.				
	b)	The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.				
	c)	The provision of any services of a financial or non-financial nature provided to the finance company or received from the finance company.				
	d)	The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.				
9(4)		Does the board have a process to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the finance company carrying on the same business.				
	a)	Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.				

	b)	Charging of a lower rate of interest than the finance company's best lending rate or paying more than the finance company's deposit rate for a comparable transaction with an unrelated comparable counterparty.				
	c)	Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;				
	d)	Providing services to or receiving services from a related-party without an evaluation procedure;				
	e)	Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.				
10	Disclosures					
10(1)	Check that the board has disclosed: (a) Annual audited financial statements and periodical financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, (b) that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English..					
10(2)	Check that the board has made the following minimum disclosures in the Annual Report:					

a)	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.				
b)	The report by the board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements				
c)	Details of directors, including names, transactions with the finance company.				
d)	Fees and remuneration paid to directors in aggregate.				
e)	Total net accommodation as defined in paragraph 9(4) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the finance company's capital funds.				
f)	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.				
g)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances				

	h)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, rules and Directions that have been communicated by the Director of the Department of supervision of Non – Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns				
	i)	A statement indicating that the board has obtained a factual findings report on the compliance with the corporate governance direction.				
11		Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above.				

Name of compliance officer :

Signature of compliance officer
:.....

Date
:.....

Approved by Chairman/persons charged with governance

Name:.....

Signature:.....

Date :.....

Annexure to the report on factual finding

NOTE: The below mentioned numbering is used to coincide with the “section 2” of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and No. 6 of 2013 amendment issued by the Central Bank of Sri Lanka.

2	The Responsibilities of the Board		Findings
2(1)	a)	<p>Check the board approval of the finance company’s strategic objectives and corporate values.</p> <p>Check whether the finance company has communicated the finance company’s strategic objectives and corporate values throughout the finance company.</p>	
	b)	<p>Check the board approval of the overall business strategy of the finance company.</p> <p>Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>Check that the overall business strategy contains measurable goals, for at least the next three years.</p>	
	c)	<p>Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.</p>	
	d)	<p>Check that the board has approved and implemented a policy of communication with all stakeholders including depositors, creditors, shareholders and borrowers.</p>	
	e)	<p>Check that the board has reviewed the adequacy and the integrity of the finance company’s internal control systems and management information systems.</p>	
	f)	<p>Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards/ CBSL direction, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.</p>	

	g)	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel.	
	h)	Check that the board has exercised appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with board policy.	
	i)	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	
	j)	Check that the board has a succession plan for key management personnel.	
	k)	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	
	l)	Check that the board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators.	
	m)	Check that the board has a process in place for hiring and oversight of external auditors.	
2(2)		<p>Check that the board has appointed the Chairman and the Chief Executive Officer (CEO).</p> <p>Check that the functions and responsibilities of the Chairman and the CEO are in line with Paragraph 7 of the Corporate Governance Direction.</p>	
2(3)		Check that there are procedures determined and resolved by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense.	

2(4)	Check that a director has abstained from voting and not be counted in quorum on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	
2(5)	Check that the board has a formal schedule of matters specifically reserved to it for decisions.	
2(6)	Check that the board has identified events where it is unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors and informed the Director of the Department of Supervision of Non- Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	
2(7)	Check that the board publishes, in the finance company's Annual Report, an annual corporate governance report setting out the compliance with these Directions.	
2(8)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.	
3	Meetings of the Board	
3(1)	Check that the board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals. Check whether consent of the board has been obtained through the circulation of written or electronic resolutions/papers.	
3(2)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	
3(3)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice has been given.	

3(4)	Check that the directors have met with the attendance requirements. (at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held). Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	
3(5)	Check that the board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	
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3(8)	Check that the company secretary maintains the minutes of board meetings and prepares the minutes within a reasonable time and has a documented process for the minutes to be inspected by the directors	
3(9)	<p>Check that the minutes of a board meeting contain or refer to the following:</p> <ul style="list-style-type: none"> (a) summary of data and information used by the board in its deliberations (b) the matters considered by the board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence, including the names of the directors; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions. 	

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4(1)	Check that the board comprise of not less than 5 and not more than 13 directors.	
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4(3)	Check that the number of executive directors, including the CEO does not exceed one- half of the number of directors of the board.	
4(4)	Check that the board has at least one fourth of independent non-executive directors of the total number of directors, Non-executive directors cannot be considered independent if he/she:	
	a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;	
	b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;	
	c) has been employed by the finance company during the two year period immediately preceding the appointment as director;	
	d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.	
	e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;	

	<p>f) is an employee or a director or has a shareholding of 10% or more of the paid up capital in a company or business organization:</p> <ul style="list-style-type: none"> i. which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or ii. in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10 % of the capital funds as shown in its last audited balance sheet of the finance company; or iii. in which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited Statement of Financial Position of the finance company. 	
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4(8)	Check whether in all corporate communications where the names of the directors are disclosed, independent non-executive directors are expressly identified. Check whether the Annual Corporate Governance Report which is a part of the Annual Report has disclosed the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors	
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7 (1)	Check that the roles of chairman and CEO is separated and not performed by the same individual.	
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7(3)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and relationships among members of the board.	
7(4)	Check whether the board evaluation process covers the following; where the Chairman: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner. (Should have been conducted at least annually).	
7(5)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	
7(6)	Check that the agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting.	
7(7)	Peruse at least three board minutes to ensure that the board members have adequately contributed to the decisions.	
7(8)	Peruse at least three board minutes to ensure that the Chairman facilitates the contribution of non-executive directors and ensures constructive relationships between executive and non – executive directors.	
7(9)	Peruse the organizational chart approved by the board and inquire from the key management personnel whether they are under the supervision of the Chairman.	
7(10)	Check the process adopted by the Chairman of the Company to communicate with the shareholders and how the views of shareholders are communicated to the board.	
7(11)	Peruse the organizational chart approved by the board to ensure that the CEO functions as the apex of the company.	
8	Board appointed committees	
8(1)	Check that the finance company has established an Audit Committee and an Integrated Risk Management Committee.	

8(2)	Audit Committee:	
	a)	Check that the chairman of the committee is a non-executive director and possesses qualifications and experience in accounting and/or audit.
	b)	Check that all members of the committee are non-executive directors.
	c)	Check that the committee has made recommendations on matters in connection with: <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of accounting standards;
	d)	Check whether the committee has established a policy in relation to the service period, audit fee and any resignation or dismissal of the auditor; This policy should address that the engagement partner does not exceed five years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
	e)	Check that the committee has obtained representations from the external auditor's on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAuS.
	f)	Check that the committee has implemented a policy on the engagement of an external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services (in accordance with Sec 8 2(e) of the regulations).

g)	<p>Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors including</p> <p>(i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;</p> <p>(ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and</p> <p>(iii) the co-ordination between auditors where more than one auditor is involved.</p>	
h)	<p>Check that the committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes;</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption;</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</p>	
i)	<p>Check that the committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which needs to be discussed in the absence of the executive management by perusing the minutes</p>	
j)	<p>Check that the committee has reviewed the external auditor's management letter and the management's response thereto.</p>	

k)	<p>Check that the committee has taken the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> (i) Established the internal audit charter which covers the scope and functions of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work. (ii) Reviewed the resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work; (iii) Reviewed the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department ; (iv) Reviewed any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (v) Recommended the appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (vi) Checked that the committee has been informed of all resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers and has provided an opportunity for them to give the reasons for their resignations (vii) Examined the organization chart and terms of reference and ensure that the internal audit function is independent of the activities it audits. (viii) Checked that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care 	
l)	<p>Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.</p>	
m)	<p>Check that the committee has met the external auditors without the executive management at least once in six months.</p>	

	n)	<p>Check that the audit committee has an approved terms of reference which includes;</p> <p>(i) explicit authority to investigate into any matter;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	
	o)	<p>Check that the committee has met regularly and maintained minutes.</p>	
	p)	<p>Check that the annual report contains a report from the Audit Committee which includes the following,</p> <p>(i) details of the duties and functions of the committee</p> <p>(ii) details of the activities of the audit committee;</p> <p>(iii) the number of audit committee meetings held in the year; and</p> <p>(iv) details of attendance of each individual director at such meetings</p>	
	q)	<p>Check that the secretary of the committee is the company secretary or the head of the internal audit function.</p>	
	r)	<p>Check that the “whistle blower” policy covers the process of dealing with;</p> <p>(i) The improprieties in financial reporting, internal control or other matters.</p> <p>(ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>(iii) Appropriate follow-up action.</p> <p>(iv) Protection of the whistle blower</p>	
8(3)	Integrated Risk Management Committee (IRMC):		

a)	Check that the committee consists of at least one non-executive director, CEO and key management personnel supervising broad risk categories, <i>i.e.</i> , credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	
b)	Check that the committee has a documented process to capture and assess all risks, <i>i.e.</i> , credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.	
c)	management level committees such as the credit committee and the asset- liability committees, in relation addressing specific risks and managing these risks.	
d)	Check that the committee has taken prompt actions in accordance with the policies on risks which have gone beyond the specified levels as decided by the committee.	
e)	Check the committee has met at least quarterly to assess all aspects of risk management by perusing the minutes	
f)	Check that the committee has taken appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	
g)	Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	

	h)	Check that the committee has established a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	
9	Related party transactions		
9(1)	The Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 shall be considered in addition to the following.		
9(2)	Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the finance company with a related party as defined in the direction no 3 of 2008 paragraph 9		
9(3)	Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.		
	a)	The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	
	b)	The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.	
	c)	The provision of any services of a financial or non-financial nature provided to the finance company or received from the finance company.	
	d)	The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	

9(4)	Does the board have a process to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the finance company carrying on the same business.	
	a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the finance company’s regulatory capital, as determined by the board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company’s share capital and debt instruments with a remaining maturity of 5 years or more.	
	b) Charging of a lower rate of interest than the finance company’s best lending rate or paying more than the finance company’s deposit rate for a comparable transaction with an unrelated comparable counterparty.	
	c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	d) Providing services to or receiving services from a related-party without an evaluation procedure;	
	e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
10	Disclosures	
10(1)	Check that the board has disclosed: (a) Annual audited financial statements and periodical financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards,	

	(b) hat such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	
10(2)	Check that the board has made the following minimum disclosures in the Annual Report:	
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	
	b) The report by the board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	
	c) Details of directors, including names, transactions with the finance company.	
	d) Fees and remuneration paid to directors in aggregate.	
	e) Total net accommodation as defined in paragraph 9(4) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the finance company's capital funds.	
	f) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	
	g) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	

	h)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, rules and Directions that have been communicated by the Director of the Department of supervision of Non – Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns	
	i)	A statement indicating that the board has obtained a factual findings report on the compliance with the corporate governance direction.	
11		Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above.	