

**SRI LANKA RELATED SERVICES PRACTICE
STATEMENT 4750**

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

(Effective for engagements commencing on or after 1 November, 2010)

CONTENTS

	Paragraph
Introduction	43
Illustrative engagement letter	44
Illustrative report	45
Procedures to be performed by the practicing auditor	46-57
Questionnaire for compliance officers of banks	58-74
Appendix: Example of an annexure to the report on factual Findings	75-89

Introduction

- 1 The purpose of this Sri Lanka Related Services Practice Statement 4750 (SLRSPS 4750) is to establish Standards and provide guidance on the directions issued by the Central Bank of Sri Lanka (CBSL) on Corporate Governance for Licensed Commercial Banks, Section 3(8)(ii)(g) of the Banking Act direction No. 11 of 2007. These directions require the external auditor of the bank to report on the bank's compliance with the corporate governance directions in the corporate governance reports published by the banks after 1 January 2010.
- 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 Banking Act Direction No. 11 of 2007 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 Bank PLC by

(signed)

Name and Title

Date

RELATED SERVICES

**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 direction 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 directive.

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 directives 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 Bank, 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 3” of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the sections 1 & 2 are not applicable for this document.

3(1) The Responsibilities of the board

3(1)(i)

- a) Check the board approval of the bank’s strategic objectives and corporate values.

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

- b) Check the board approval of the overall business strategy of the bank.

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, share-holders and borrowers;

- e) Check that the board has reviewed the adequacy and the integrity of the bank’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, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;

- h) Check that the board has exercised appropriate oversight of the affairs

of the bank by key management personnel, that is consistent with board policy;

- 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;
- 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 bank maintains a relationship with regulators.
- m) Check that the board has a process in place for hiring and oversight of external auditors.

3(1)(ii) 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 Direction 3(5) of these Directions.

3(1)(iii) Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.

3(1)(iv) 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 bank.

- 3(1)(v)** 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. And for all other board meetings, notice has been given.
- 3(1)(vi)** Check that the board has taken required action on directors who have not attended 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(1)(vii)** Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and 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(1)(viii)** Check the process to enable all directors to have access to advice and services of the company secretary.
- 3(1)(ix)** Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.
- 3(1)(x)** Check that the minutes of a board meeting contain or refer to the following:
- (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;
 - (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 bank is exposed and an overview of the risk management measures adopted; and
 - (f) the decisions and board resolutions.

3(1)(xi) Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.

3(1)(xii) Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.

Check that a director has abstained from voting 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

Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting

3(1)(xiii) Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.

3(1)(xiv) Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.

3(1)(xv) Check that the board has the bank capitalised at levels as required by the Monetary board.

3(1)(xvi) Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.

3(1)(xvii) Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.

3(2) The board's composition

3(2)(i) Check that the board comprise of not less than 7 and not more than 13 directors.

3(2)(ii) (A) Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.

(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.

3(2)(iii) Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.

3(2)(iv) Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher

Check if non-executive directors can be considered independent if he/she:

- a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;
- b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.
- c) has been employed by the bank during the two year period immediately preceding the appointment as director.
- d) has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a “close relation” means the spouse or a financially dependant child)
- e) represents a specific stakeholder of the bank
- f) is an employee or a director or a material shareholder in a company or business organization:
 - I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or
 - II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or

III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.

- 3(2)(v)** In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.
- 3(2)(vi)** Check that the bank has a process for appointing independent directors.
- 3(2)(vii)** Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.
- 3(2)(viii)** Check that the bank discloses 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 in the annual corporate governance report.
- 3(2)(ix)** Check the procedure for the appointment of new directors to the board.
- 3(2)(x)** Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.
- 3(2)(xi)** Check if a director resigns or is removed from office, the board:
- (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and
 - (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.
- 3(2)(xii)** Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank
- 3(3) Criteria to assess the fitness and propriety of directors**
- 3(3)(i)** Check that the age of a person who serves as director does not exceed 70 years.

(A) Check that the transitional provisions have been complied with.

3(3)(ii) Check if a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.

3(4) Management functions delegated by the board

3(4)(i) Check that the delegation arrangements have been approved by the board.

3(4)(ii) Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.

3(4)(iii) Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.

3(5) The Chairman and CEO

3(5)(i) Check that the roles of chairman and CEO is separate and not performed by the same individual

3(5)(ii) Check that the chairman is a non-executive director.

In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.

Check that the designation of the senior director be disclosed in the bank's Annual Report.

3(5)(iii) 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 board members and the nature of any relationships including among members of the board.

3(5)(iv) Check that the board has a self evaluation process 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.

3(5)(v) Check that a formal agenda is circulated by the company secretary approved by the chairman.

3(5)(vi) Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.

3(5)(vii) Check that the board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.

3(5)(viii) Check that the board has a self evaluation process that assesses the contribution of non-executive directors.

3(5)(ix) Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.

3(5)(x) Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.

3(5)(xi) Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.

3(6) Board appointed committees

3(6)(i) Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.

Check that each board committee report is addressed directly to the board. Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.

3(6)(ii) Audit Committee:

a) Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.

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 the relevant accounting standards; and
 - (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
- d) Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.
- e) Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.
- f) Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.
- g) Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following:
 - (i) major judgmental areas;
 - (ii) any changes in accounting policies and practices;
 - (iii) the going concern assumption; and
 - (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.
- h) Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.
- i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.
- j) Check that the committee shall take the following steps with regard to the internal audit function of the bank:
 - I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;
 - II. Review 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;
 - III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;
 - IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;
 - V. Check that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;
 - VI. Check that the internal audit function is independent of the activities it audits.
- k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.
- l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.

- m) Check the terms of reference of the committee to ensure that there is;
 - (i) explicit authority to investigate into any matter within its terms of reference;
 - (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.
 - n) Check that the committee has met, at least four times and maintained minutes.
 - o) Check that the board has disclosed in the annual report,
 - (i) details of the activities of the audit committee;
 - (ii) the number of audit committee meetings held in the year; and
 - (iii) details of attendance of each individual director at such meetings
 - p) Check that the secretary of the committee is the company secretary or the head of the internal audit function.
 - q) 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.
- 3(6)(iii)** Does the following rules apply in relation to the Human Resources and Remuneration Committee:

- a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.
- b) Check that the goals and targets for the directors, CEO and the key management personnel are documented.
- c) Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- d) Check that the “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.

3(6)(iv) Does the following rules apply in relation to the Nomination Committee:

- a) Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.
- b) Check that the committee has considered and recommended (or not recommended) the re-election of current directors.
- c) Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.
- d) Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.
- e) Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.
- f) Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.

- 3(6)(v)** Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):
- a) The committee shall consist of at least three non-executive directors, 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 process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank 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 bank basis and group basis.
 - c) Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.
 - d) Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.
 - e) Check how many times the committee has met at least quarterly.
 - f) Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.
 - 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 establish a compliance function to assess the bank's compliance with laws, regulations, 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.

3(7) Related party transactions

3(7)(i) Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:

- a. Any of the bank’s subsidiary companies;
- b. Any of the bank’s associate companies;
- c. Any of the directors of the bank;
- d. Any of the bank’s key management personnel;
- e. A close relation of any of the bank’s directors or key management personnel;
- f. A shareholder owning a material interest in the bank;
- g. A concern in which any of the bank’s directors or a close relation of any of the bank’s directors or any of its material shareholders has a substantial interest.

3(7)(ii) 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 bank in the form of deposits, borrowings and investments.
- c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.
- d) The creation or maintenance of reporting lines and information flows between the bank 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.

- 3(7)(iii)** Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the bank carrying on the same business.
- a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction:
 - I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.
 - II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.
 - b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’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.
- 3(7)(iv)** Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.

- 3(7)(v)**
- a) Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.
 - b) Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.
 - c) Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public
 - d) Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank
- 3(7)(vi)** Check that there is a process in place to identify when the bank grants any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.
- 3(7)(vii)** Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.

3(8) Disclosures

- 3(8)(i)** Check that the board has disclosed:

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

3(8)(ii) 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 bank'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) Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.
- d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.
- e) Total net accommodation as defined in 3(7)(iii) 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 bank's regulatory capital.
- f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.

- g) Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.
- h) 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
- i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns

Questionnaire for compliance officers of banks

NOTE: The below mentioned numbering is used to coincide with the “section 3” of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the sections 1 & 2 are not applicable for this document.

3(1)	The responsibilities of the board	Complied	Not complied	N/A	Reference
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.				
a)	<p>Check the board approval of the bank’s strategic objectives and corporate values.</p> <p>Check whether the bank has communicated the bank’s strategic objectives and corporate values throughout the bank.</p>				
b)	<p>Check the board approval of the overall business strategy of the bank.</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)	Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.				

RELATED SERVICES

	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 bank'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, 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 exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;				
	h)	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;				

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 bank maintains a relationship with regulators.				
m)	Check that the board has a process in place for hiring and oversight of external auditors.				

RELATED SERVICES

<p>3(1) (ii)</p>	<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 Direction 3(5) of these Directions.</p>			
<p>3(1) (iii)</p>	<p>Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.</p>			
<p>3(1) (iv)</p>	<p>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 bank.</p>			
<p>3(1) (v)</p>	<p>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. And for all other board meetings, notice has been given.</p>			
<p>3(1) (vi)</p>	<p>Check that the board has taken required action on directors who have not attended 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.</p>			

<p>3(1) (vii)</p>	<p>Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and 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.</p>			
<p>3(1) (viii)</p>	<p>Check the process to enable all directors to have access to advice and services of the company secretary.</p>			
<p>3(1) (ix)</p>	<p>Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.</p>			
<p>3(1) (x)</p>	<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; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; 			

RELATED SERVICES

	<p>(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</p> <p>(g) the decisions and board resolutions.</p>				
3(1)(xi)	<p>Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.</p>				
3(1)(xii)	<p>Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.</p> <p>Check that a director has abstained from voting 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</p> <p>Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting</p>				
3(1)(xiii)	<p>Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.</p>				

3(1) (xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.				
3(1) (xv)	Check that the board has the bank capitalised at levels as required by the Monetary board.				
3(1) (xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.				
3(1) (xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.				
3(2)	The board's Composition				
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.				
3(2) (ii)	(A) Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.				

RELATED SERVICES

	(B)	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.				
3(2) (iii)		Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.				
3(2) (iv)		Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher Check if non-executive directors can be considered independent if he/she:				
	a)	Holds a direct and indirect shareholdings of more than 1 per cent of the bank;				
	b)	currently has or had during the period of two years immediately preceding his/ her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.				
	c)	has been employed by the bank during the two year period immediately preceding the appointment as director.				

	d)	has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a “close relation” means the spouse or a financially dependant child)			
	e)	represents a specific stakeholder of the bank			
	f)	<p>is an employee or a director or a material shareholder in a company or business organization:</p> <p>I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or</p> <p>II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or</p> <p>III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.</p>			

RELATED SERVICES

3(2) (v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.				
3(2) (vi)	Check that the bank has a process for appointing independent directors.				
3(2) (vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.				
3(2) (viii)	Check that the bank discloses 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 in the annual corporate governance report.				
3(2) (ix)	Check the procedure for the appointment of new directors to the board.				
3(2) (x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.				

<p>3(2) (xi)</p>	<p>Check if a director resigns or is removed from office, the board:</p> <p>(a) announce the director’s resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director’s disagreement with the bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>				
<p>3(2) (xii)</p>	<p>Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank</p>				
<p>3(3)</p>	<p>Criteria to assess the fitness and propriety of directors</p>				
<p>3(3)(i)</p>	<p>Check that the age of a person who serves as director does not exceed 70 years.</p>				
	<p>(A) Check that the transitional provisions have been complied with</p>				
<p>3(3) (ii)</p>	<p>Check if a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.</p>				
<p>3(4)</p>	<p>Management functions delegated by the board</p>				

RELATED SERVICES

3(4)(i)	Check that the delegation arrangements have been approved by the board.				
3(4)(ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.				
3(4)(iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.				
3(5)	The Chairman and CEO				
3(5)(i)	Check that the roles of chairman and CEO is separate and not performed by the same individual				
3(5)(ii)	<p>Check that the chairman is a non-executive director.</p> <p>In the case where the chairman is not an independent director, check that the board designate an independent 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 bank's Annual Report.</p>				

<p>3(5) (iii)</p>	<p>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 board members and the nature of any relationships including among members of the board.</p>				
<p>3(5) (iv)</p>	<p>Check that the board has a self evaluation process where the chairman:</p> <ul style="list-style-type: none"> (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. 				
<p>3(5) (v)</p>	<p>Check that a formal agenda is circulated by the company secretary approved by the chairman.</p>				
<p>3(5) (vi)</p>	<p>Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.</p>				

RELATED SERVICES

3(5) (vii)	Check that the board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.				
3(5) (viii)	Check that the board has a self evaluation process that assesses the contribution of non-executive directors.				
3(5) (ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.				
3(5) (x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.				
3(5) (xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.				
3(6)	Board appointed committees				
3(6)(i)	Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Check that each board committee report is addressed directly to the board.				

	Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.				
3(6) (ii)	Audit Committee:				
	a) Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.				
	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 the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the 				

RELATED SERVICES

		engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.				
	d)	Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.				
	e)	Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.				
	f)	Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.				
	g)	Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;				

	<p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</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>				
	h) Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.				
	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.				
	j) Check that the committee shall take the following steps with regard to the internal audit function of the bank:				

RELATED SERVICES

	<p>I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>II. Review 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;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>V. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and</p>			
--	---	--	--	--

		<p>any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>VI. Check that the internal audit function is independent of the activities it audits.</p>				
	k)	<p>Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.</p>				
	l)	<p>Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.</p>				
	m)	<p>Check the terms of reference of the committee to ensure that there is;</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p>				

RELATED SERVICES

		(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.				
	n)	Check that the committee has met, at least four times and maintained minutes.				
	o)	Check that the board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings				
	p)	Check that the secretary of the committee is the company secretary or the head of the internal audit function.				
	q)	Check that the “whistle blower” policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters.				

		<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>				
3(6) (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:					
	a)	Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.				
	b)	Check that the goals and targets for the directors, CEO and the key management personnel are documented.				
	c)	Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.				

RELATED SERVICES

	d)	Check that the “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.				
3(6) (iv)	Does the following rules apply in relation to the Nomination Committee:					
	a)	Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.				
	b)	Check that the committee has considered and recommended (or not recommended) the re-election of current directors.				
	c)	Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.				
	d)	Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.				

	e)	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.				
	f)	Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.				
3(6)	(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):				
	a)	The committee shall consist of at least three non-executive directors, 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 process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank 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 bank basis and group basis.				

RELATED SERVICES

	c)	Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.				
	d)	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.				
	e)	Check how many times the committee has met at least quarterly.				
	f)	Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.				
	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 establish a compliance function to assess the bank’s compliance with laws, regulations, 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.				
3(7)		Related party transactions				
3(7)(i)		Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction: <ul style="list-style-type: none"> a. Any of the bank’s subsidiary companies; b. Any of the bank’s associate companies; c. Any of the directors of the bank; d. Any of the bank’s key management personnel; e. A close relation of any of the bank’s directors or key management personnel; 				

RELATED SERVICES

	<p>f. A shareholder owning a material interest in the bank;</p> <p>g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.</p>				
3(7) (ii)	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 bank in the form of deposits, borrowings and investments.				
	c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.				
	d) The creation or maintenance of reporting lines and information flows between the bank 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.				

<p>3(7) (iii)</p>	<p>Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the bank carrying on the same business.</p>			
	<p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.</p>			

RELATED SERVICES

	b)	Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank'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.				
3(7) (iv)		Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director				

		concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.				
3(7) (v)	a)	Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director				
	b)	Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.				

RELATED SERVICES

	c)	Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public				
	d)	Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank				
3(7) (vi)		Check that there is a process in place to identify when the bank grants any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.				

3(8)	Disclosures				
3(8)(i)	<p>Check that the board has disclosed:</p> <p>(a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p> <p>(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>				
3(8)(ii)	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.				

RELATED SERVICES

	b)	The report by the board on the bank'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)	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.				
	d)	Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/ remuneration paid by the bank.				
	e)	Total net accommodation as defined in 3(7)(iii) 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 bank's regulatory capital.				

f)	The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.				
g)	Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.				
h)	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				
i)	A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns				

RELATED SERVICES

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 3” of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the sections 1 & 2 are not applicable for this document.

3(1)	The Responsibilities of the board	Findings
3(1)(i)	Agreed upon procedures carried out to ensure the board has strengthened the safety and soundness of the bank.	
	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 bank’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) Check that the board has obtained the external auditor’s report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	
	e) Total net accommodation as defined in 3(7) (iii) 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 bank’s regulatory capital.	

RELATED SERVICES

f)	The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	
h)	Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	
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	
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 bank maintains a relationship with regulators.	
m)	Check that the board has a process in place for hiring and oversight of external auditors.	

3(1)(ii)	<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 Direction 3(5) of these Directions.</p>	
3(1)(iii)	<p>Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.</p>	
3(1)(iv)	<p>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 bank.</p>	
3(1)(v)	<p>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. And for all other board meetings, notice has been given.</p>	
3(1)(vi)	<p>Check that the board has taken required action on directors who have not attended 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.</p>	
3(1)(vii)	<p>Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and 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.</p>	
3(1)(viii)	<p>Check the process to enable all directors to have access to advice and services of the company secretary.</p>	

RELATED SERVICES

3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	
3(1)(x)	<p>Check that the minutes of a board meeting contain or refer to the following:</p> <p>(a) a summary of data and information used by the board in its deliberations</p> <p>(b) the matters considered by the board</p> <p>(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;</p> <p>(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</p> <p>(f) the decisions and board resolutions.</p>	
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	
3(1)(xii)	<p>Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.</p> <p>Check that a director has abstained from voting 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</p>	
	Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting	

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