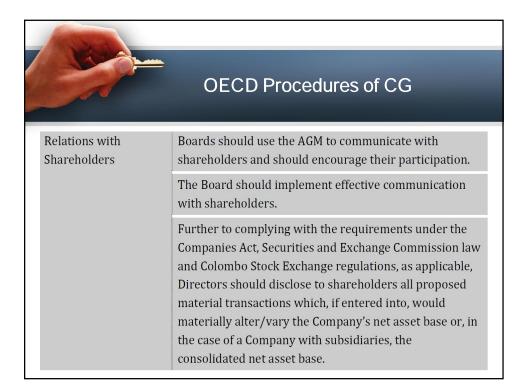


	OECD Procedures of CG	
Directors' Remuneration	Companies should establish a formal and transparent procedure for developing policy on executive remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	
	Levels of remuneration of both Executive and Non- Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.	
	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	





### 1. Definition?

- are directors who do not have day-to-day operational responsibility for the company. They are not employees of the company or affiliated with it in any other way.
- 2. Why we need NEDs?
  - To have a balance/unbiased view
  - To make "objective judgements"
- 3. How many NEDs?
  - Higher of 2 or 1/3<sup>rd</sup> of total Board Members
- 4. What are other main requirements?
  - Board to assess annually the independence of NEDs
  - NEDs should have appropriate qualifications, skills and experience and be committed and independent
  - Performance of NEDs should be done annually and should be available for reelection at regular intervals not exceeding 3 years

# CG Requirements for Listed Companies in SL:

- 1. What is the main requirement?
  - Comply with CG requirements as part of the "listing rules"
  - Follow guidelines of Best Practice Code of 2013
- 2. What are the requirements as part of listing rules?
  - · Comply with listing rules applicable for CG
  - State in the annual report that they in compliance with the rules or the reasons for non compliance
- 3. What are listing rules applicable for CG?

Category	Requirement
NEDs	No of NEDs to be 2 or $1/3^{\rm rd}$ of Board whichever is higher where the calculation to be based on Board composition existed at the recent AGM. Any change of the ratio to be rectified within 90 days.
Independent NEDs (INEDs)	If 2 NEDs-Both of them should be INEDs. If more than 2 NEDs, higher of 2 or $1/3^{\rm rd}$ of NEDs. All INEDs to submit declaration of independence annually.





## **Audit Committee**

#### **Audit Committee:**

The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors Functions of AC

- Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards.
- Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.
- Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards.
- Assessment of the independence and performance of the Entity's external auditors.
- To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.

#### Advantages of AC

- Improve quality of financial reporting and public confidence on the objectivity and credibility of F/S
- Create clime of discipline to reduce the risk of fraud
- Enable INEDs to contribute positively and objectively judge
- Providing flat form get things done by CFO/FD which are otherwise difficult
- Provide external auditor a channel for communication for his issues and resolving dispute with managers
- · Safeguard internal auditor's independence

#### Disadvantages of AC

- The executive directors may not understand the purpose of an audit committee and may perceive that it detracts from their authority.
- There may be difficulty selecting sufficient non-executive directors with the necessary competence in auditing matters for the committee to be really effective.
- The establishment of such a <u>formalised</u> reporting procedure may dissuade the <u>auditors</u> from raising matters of judgement and limit them to reporting only on matters of fact
- · Costs may be increased.

# Criteria under NEDs will be considered not Independent:

- (a) Has been **employed** by the **listed entity** during the period of two years immediately preceding appointment as director;
- (b) Currently has (or had during the period of two years immediately preceding appointment as a director) a material business relationship with the listed entity, whether directly or indirectly;
- (c) Has a close family member who is a director, Chief Executive Officer (and/or an equivalent position) in the listed entity;
- (d) Has a significant shareholding in the listed entity;
- (e) Has served on the board of the listed entity continuously for a period exceeding nine years from the date of the first appointment; provided however, if such director is re-appointed after a period of two years from the date of completion of the preceding nine-year period, he will be considered as 'independent' for the purposes of this Section.

