

Corporate Directors Programme

Speech of Mr Thilak Karunaratne, the Chairman of SEC at the Certificate Award Ceremony of the Corporate Directors Programme jointly conducted by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka

Good evening!

Mr. Arjuna Herath, President Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Mr Asita Talwatta, Chairman of the Corporate Directors Programme, Ladies and Gentleman.

First of all let me thank the organizers for inviting me to say a few words at this important function. I am also happy that the Securities and Exchange Commission of Sri Lanka (SEC) has collaborated with your Institute in this initiative to inculcate a stronger culture of Corporate Governance and offering a programme to the young business leaders which would help them in their journey to face the challenges in the Corporate world.

The Corporate Directors Programme is a distinct and timely initiative that is designed to enhance the knowledge and skills of directors in listed entities. Knowledgeable and progressive leadership in these companies indeed is important for the smooth functioning of the capital market. It is under such conditions we at the SEC signed the MOU with CA Sri Lanka in May 2014 to provide financial assistance for this programme.

I perceive this initiative as an ideal opportunity for directors to widen their knowledge on **performance and conformance governance, corporate and social responsibilities, financial and integrated reporting and applicable laws and regulations.**

“ Yaha Palanaya or Good Governance” is a term that has become a salient feature in the winning formula in election of leaders in this region in recent times. The election campaigns of President Maithripala Sirisena of Sri Lanka President Joko Widodo of Indonesia and Prime Minister Narendra Modi of India are important examples of this phenomenon. Further the same theme is put in to practice under the leadership of the President Xi Jinping of China in minimizing corruption and creating a cleaner society in that country .

Inculcating good governance in a country would not be possible unless and until the essence of this ideology cascades down the line to all important segments *inter alia* the economy. Therefore I expect this programme conducted jointly by CA Sri Lanka and SEC will provide the knowledge and skills required in promoting Good Governance - which in essence is corporate governance - within the respective organizations of the participants.

Transparency, accountability, risk management, credibility, prevention of concentration of power are the corner stones of good governance. I am confident that this program would have addressed all these aspects through its curriculum.

However, I must stress here that effective corporate governance is not merely complying with rules, but is about intellectual honesty and adhering to the true spirit to the essence of Good Governance.

Few decades ago economists *Milton Friedman* perceived the responsibility of the private sector as increasing profits in their corporates. However in today's world we believe that running the business successfully is not simply about profit and market domination but management focused on **corporate social responsibility**. Companies that focus on corporate social responsibilities will foster accountability within their organizations and promote inclusive development which is the key for good governance. On the other side of the coin, companies will be able to enhance their brand image and reputation, foster positive work place environment, increase customer loyalty etc. I am pleased to note that the programme would have delved into this segment even further.

Financial and integrated reporting is vital for a good governance framework. Integrated reporting will incorporate financial and non-financial information and thereby enabling stakeholders to understand how the organization performs. An integrated report looks beyond the traditional timeframe and scope of the current financial reporting by addressing longer-term consequences of decisions and actions. It demonstrates the link between strategy, governance and business model in an organization that leads to transparency and credibility.

Awareness on relevant **rules and regulations** cannot be undermined when we talk of good governance within organizations. Directors should have a thorough understanding on

relevant company law provisions, rules on risk management and compliance, listing rules of the Colombo Stock Exchange (CSE), employment regulations etc.

Risk management and compliance is a pivotal requisite if we are to bring about a culture of good governance in organizations. Prudent risk management will increase efficiency in asset allocation, reduce waste , curb fraud, promote better management of contingent and maintenance activities, reduce cost of capital etc. Let me also stress on the importance of auditors executing their duties with due diligence. We are exploring the possibility of placing a legal duty on Audit Firms carrying out audits of Listed Companies to report any irregularities or improper conduct they find in the financial statements of the company to SEC. This type of responsibility imposed on auditors will assist the regulator to be more vigilant and take preemptive action to protect the interest of investors . This would lead to increased credibility and greater transparency of both Listed Companies and audited reports particularly in the mind of potential investors. This is a legal requirement present in other jurisdictions such as Malaysia.

Interdependence between governance and progressive leadership is seen in successful organizations . If you have leadership without governance you risk tyranny and fraud. If you have governance without leadership you risk atrophy, bureaucracy and indifference. Hence I urge directors to utilize the skills you acquire to become pragmatic leaders who would encompass the current changes in the corporate world when formulating and implementing strategies and business processes.

If directors execute their corporate role prudently our job as the regulator will be much easier. Their farsighted, informed and prudent decisions would encourage an efficient price discovery mechanism, increase market value, reduce systematic risk in the market and also result in a myriad of other positive factors. This would pave the way towards attaining the cornerstones (*transparency, sustainability, accountability, risk management, credibility and prevention of concentration of power*) of good governance in society.

On that note, I take your leave and wish all the very best in all your future endeavors.