Corporate Directors Launch Ceremony Speech –Arjuna Herath

Amendment of Article 154 of the Constitution

The Auditor General shall audit the accounts, among host of govt. related entities, companies registered or deemed to be registered under the Companies Act, No. 7 of 2007 in which the Government or a public corporation or local authority holds 40% or more of the shares of that company.

Under and in terms of the Companies Act, the **appointment of an Independent Auditor is done with the approval of the majority (more than 50%) of the shareholders of the company** at the Annual General Meeting of a company and is required to submit the Audit Report on the Financial Statements of the Company to the shareholders of the company and is answerable to the shareholders of the company.

This amendment was to **compromise the unimpeachable right of the shareholders to appoint an Auditor of their**

choice ensuing from their interest in the company. This would have meant the **majority of the shareholders will be unable to exercise their inherent right to scrutinize and question the financial statements of the company that they invested in as the Auditor General is only answerable to Parliament and not answerable to the shareholders**.

This also meant that **the right the shareholders have to sue the auditor in the event auditor violates the duty of care it has to the shareholders is compromised** as the Auditor General does not have a contractual right or a duty of care to the shareholders of a company.

Further, the Auditor General as result of being responsible and answerable only to Parliament is **not subject to the regulatory control of SLAASMB which may cause inconsistency in financial reporting**. Additionally, **Auditor General was not required to be a qualified auditor** as defined in the Constitution.

We made representation to government and they were gracious enough to **remedy the anomaly to some extent by increasing the threshold of companies requiring the auditor general to audit to 50% or more and requiring the Auditor General to be a qualified auditor as defined in the constitution**.

Corporate governance refers to the mechanisms and processes by which corporations are governed. At the most elementary level, it can be described as the **processes by which investors attempt to minimize the transaction costs and agency costs associated with doing business within a firm**. Hence, the **need for good Corporate Governance essentially arises due to the division between ownership and control which characterizes almost all modern companies**.

The primary trouble with such division, which forms the principal focus of corporate governance principles, is what is known as agency costs i.e. the tendency of the management, through its various instrumentalities, to sub serve the stakeholder for benefits of other objectives which affect these stakeholders detrimentally.

Auditors are one such agency which allows the shareholders of a company to get an unbiased analysis of the finances of the company yet smooth day to day functioning of the auditors depend a lot on the cooperation by the management.