



The Institute of
Chartered Accountants
of Sri Lanka

**GUIDANCE FOR DIRECTORS OF BANKS ON THE DIRECTORS'
STATEMENT ON INTERNAL CONTROL**

**SRI LANKA STANDARD ON ASSURANCE ENGAGEMENTS 3050 –
ASSURANCE REPORT FOR BANKS ON DIRECTORS' STATEMENT
ON INTERNAL CONTROL (SLSAE – 3050)**

**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 (SLRSPS – 4750)**

2010

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PRESIDENT'S MESSAGE

It gives me great pleasure to incorporate this message to this publication on fulfilling the requirements of the Banking Act Direction No. 11 of 2007, on corporate governance and internal controls of Licensed Commercial Banks.

The Central Bank of Sri Lanka (CBSL) entrusted the Institute of Chartered Accountants of Sri Lanka (ICASL) to develop guidelines aimed at assisting directors of banks and auditors of bank on the important aspects of internal control and corporate governance.

This is an important and pertinent initiative in strengthening the pillars of our financial services industry and also comes at a crucial juncture of Sri Lanka's economy, which is poised for greater economic growth in the coming years.

This publication introduces a new standard, "Sri Lanka Standards on Assurance Engagements 3050 – Assurance Report for Banks on Directors' Statement on Internal Control (SLSAE – 3050) and a new practice statement, "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 (SLRSPS – 4750) in addition to the guidance for Directors of Banks on the Directors' Statement on Internal Control.

On behalf of the Council of the Institute, I take this opportunity to extend my appreciation to the consultative and technical committees under the chairmanship of Mr. Asite Talwatte and to the staff of the technical division, for successfully accomplishing this task.

Sujeewa Mudalige
President

The Institute of Chartered Accountants of Sri Lanka

FOREWORD

The Central Bank of Sri Lanka (CBSL) in pursuance to the role as the regulator of financial institutions in Sri Lanka, has issued the Banking Act direction No. 11 of 2007 on corporate governance and internal controls to licensed commercial banks, in order to enhance and build the confidence in these key entities.

In order to assist the bankers and practitioners to comply with this direction, at the request of CBSL, the Institute of Chartered Accountants of Sri Lanka (ICASL) appointed a consultative committee under the Chairmanship of Mr. Asite Talwatte, Chairman – Corporate governance committee, to discuss and deliberate the practical approach and implementation of requirements of the direction by banks and practicing firms. The consultative committee consists of the following representatives from banks and partners of practicing firms;

No.	Name	Designation	Company/ Firm
1	Mr. Nandika Buddhipala	Chief Financial Officer	Commercial Bank of Ceylon PLC
2	Mr. Channa De Silva	Director General	Securities & Exchange Commission of Sri Lanka
3	Mr. Nihal Fonseka	General Manager/CEO	DFCC Bank
4	Mr. Amitha Gooneratne	Managing Director	Commercial Bank of Ceylon Ltd.
5	Mr. Ajanta De Vas Gunasekara	Asst. General Manager	HNB Assurance PLC
6	Mr. Ravidu Gunasekera	Partner	PricewaterhouseCoopers
7	Mr. Su-ayid Ismail	Partner	Ernst & Young
8	Mr. Manil Jayesinghe	Partner	Ernst & Young
9	Ms. Ranjani Joseph	Partner	KPMG Ford Rhodes Thornton & Co.
10	Mr. Sujeewa Mudalige	Partner	PricewaterhouseCoopers
11	Mr. P R A L Parनावithana	Senior Assistant Director	Central Bank of Sri Lanka
12	Mr. Jagath Perera	Partner	KPMG Ford Rhodes Thornton & Co.
13	Mr. Suren Rajakarier	Partner	KPMG Ford Rhodes Thornton & Co.
14	Mr. Sujeewa Rajapakse	Partner	BDO Partners
15	Mr. G A J C Reny	Senior Assistant Director	Central Bank of Sri Lanka
16	Mr. Asoka Rupasinghe	Chief Financial Officer	Bank of Ceylon
17	Mrs. N H E R Siriwardane	Additional Director - Non-Bank Supervision Dept.	Central Bank of Sri Lanka
18	Mr. Yohan Soza	Head of Finance	People's Bank
19	Mr. S Swarnajothy	Auditor General	Auditor General's Dept.
20	Mr. Asite Talwatte	Partner	Ernst & Young

After several discussions of the consultative committee to interpret the directions from our application perspective to benchmark and develop guidelines, a technical committee was appointed to research best practices available internationally to comply with the said regulations. The technical committee consisting of senior partners of firms and the technical directorate of ICASL after a process of rigorous review of available international pronouncements recommended the following standards for adoption by the Statutory Accounting Standards Committee and subsequently by the Council of ICASL.

This publication covers a guidance for directors of banks and a new standard issued under “Sri Lanka Standards on Assurance Engagements” (SLSAE) and a new practice statement issued under “Sri Lanka Related Services Practice Statement” (SLRSPS) in the conduct of this specialised and related services and broadly could be categorized as follows:

- Guidance for Directors of Banks on the Directors’ Statement on Internal Control
- Sri Lanka Standard on Assurance Engagements 3050 – Assurance Report for Banks on Directors’ Statement on Internal Control (SLSAE – 3050)
- 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 (SLRSPS – 4750)

The guidance and SLSAE 3050 are for the purpose of compliance with the sections 3(8)(ii)(b) and 3(8)(ii)(c) of the Banking Act Direction and SLRSPS 4750 is in compliance with the section 3(8)(ii)(g) of the Banking Act Direction.

The practitioners, banking personnel and users of this publication should be aware and consider the appropriate Standards / Practice Statement applicable to the engagement.

On behalf of the special consultative committee, I take this opportunity to thank the consultative and technical committee members for their valuable feedback, and the staff of the Technical Division, Ms. Chamila Cooray – Head of Technical, Mr. Kamal Saseedaran – Quality Assurance Manager and Ms. Anushka Madurasinghe – Technical Manager for having, researched, and edited this publication contributing immensely to its content.

Asite Talwatte
Chairman
Corporate Governance Committee

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GUIDANCE FOR DIRECTORS OF BANKS
ON
THE DIRECTORS' STATEMENT ON INTERNAL CONTROL

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Introduction

- 1 The Central Bank of Sri Lanka issued directions on Corporate Governance for Licensed Commercial Banks and Licensed Specialized Banks in Sri Lanka. These directions require the Board of such institutes to present a report 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 the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.
- 2 The Institute of Chartered Accountants of Sri Lanka (ICASL) was requested by the Central Bank of Sri Lanka (CBSL) to develop guidance for directors of banks in complying with the directions. ICASL considered the recognized principles for the assessment of internal control systems elaborated in the "Framework for Internal Control Systems in Banking Organizations" issued by the Basel Committee on Banking Supervision in September 1998 as more relevant and appropriate for this specific requirement.
- 3 ICASL believes that the principles presented in paragraphs 4-15 will provide a useful framework for the effective assessment of internal control. This guidance also illustrates the responsibilities of directors in fulfilling the requirements enunciated by the principles. In addition, an illustration of how to document control activities is annexed to this guidance, enumerating significant processes and significant accounts to assist the directors in reporting requirements.

Principles for the Assessment of Internal Control System

Management oversight and control culture

Principle 1:

- 4 The Board of Directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. The Board of Directors is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained.

Principle 2:

- 5 Senior management should have responsibility for implementing strategies and policies approved by the Board; developing processes that identify, measure, monitor and control risks incurred by the bank; maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensuring that

delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and the effectiveness of the internal control system.

Principle 3:

- 6 The Board of Directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of internal control. All personnel at a banking organization need to understand their role in the internal Control process and be fully engaged in the process.

Risk recognition and assessment

Principle 4:

- 7 An effective internal control system requires that the material risks that could adversely affect the achievement of the bank's goals are being recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organization (that is, credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

Control activities and segregation of duties

Principle 5:

- 8 Control activities should be an integral part of the daily activities of a bank. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include; top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations; and, a system of verification and reconciliation.

Principle 6:

- 9 An effective internal control system requires that there is appropriate segregation of duties and those personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest should be identified, minimized and subject to careful, independent monitoring.

Information and communication

Principle 7:

- 10 An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, and accessible and provided in a consistent format.

Principle 8:

- 11 An effective internal control system requires that there are reliable information systems in place that cover all significant activities of the bank. These systems, including those that hold and use data in an electronic form, must be secure, monitored independently and supported by adequate contingency arrangements.

Principle 9:

- 12 An effective internal control system requires effective channels of communication to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.

Monitoring activities and correcting deficiencies

Principle 10:

- 13 The overall effectiveness of the bank's internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit.

Principle 11:

- 14 There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the Board of Directors or its audit committee, and to senior management.

Principle 12:

- 15 Internal control deficiencies, whether identified by business line, internal audit or other control personnel, should be reported in a timely manner to the appropriate management level and addressed promptly. Material internal control deficiencies should be reported to senior management and the Board of Directors.

- 16 The responsibilities of Directors in maintaining a sound system of internal control, in accordance with the principles for the assessment of internal control systems are enumerated in paragraphs 17 – 28.

The Responsibilities of Directors in Maintaining a Sound System of Internal Control

- 17 Maintaining sound system of internal controls to safeguard shareholders' investment and the bank's assets is the responsibility of the Board and top management.
- 18 The Board should identify principal risks on an ongoing basis and ensuring the implementation of appropriate systems to evaluate and manage these risks by considering the following factors.
- (a) The adequacy of the whole risk management framework of the bank
 - (b) The nature and extent of risks facing the bank
 - (c) The extent and categories of risk which it regards as acceptable for the bank to bear
 - (d) The likelihood of the risks concerned materializing
 - (e) The bank's ability to reduce the incidence of risks that do materialize and their impact on the business
 - (f) The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

It is the role of management to implement Board policies on risk and control. In fulfilling its responsibilities, management should identify and evaluate the risks faced by the bank for consideration by the Board and design, operate and monitor a suitable system of internal control which implements the policies adopted by the Board.

- 19 The Board and top management should establish an appropriate control environment which includes;
- (a) Written communication of bank values, the code of conduct, policies and procedures
 - (b) The functions of the Board of Directors and its committees
 - (c) Management's philosophy and operating style
 - (d) The bank's organizational structure and methods of assigning authority and responsibility

(e) Clearly defined authorities and responsibilities for each manager, employee and department

- 20 All employees have responsibility for internal controls as part of their accountability for achieving objectives. Employees as a whole should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control.
- 21 Reviewing the design and effectiveness of the bank's internal control systems and management information systems including systems for compliance with applicable laws, regulations, rules, directives and guidelines is an essential part of the Board's responsibilities.
- 22 The Board should define the process to be adopted for its review of the design and effectiveness of internal control. This should encompass both the scope and frequency of the reports it receives and reviews during the year, and also the process for its assessment.
- 23 The Board should form its own view on the design and effectiveness of the bank's internal control systems after due and careful enquiry based on the information and assurances provided to it. Management is accountable to the Board for monitoring the bank's internal control systems and for providing assurance to the Board that it has done so.
- 24 Effective monitoring on a continuous basis is an essential component of a sound system of internal control. The Board cannot, however, rely solely on the embedded monitoring processes within the bank to discharge its responsibilities. It should regularly receive and review reports on internal control.
- 25 The Board has to set the audit committee to carry out the reviews of internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.
- 26 An effective and comprehensive internal audit of internal control systems carried out operationally independent, appropriately trained and competent staff should be established.
- 27 Where an internal audit function does not exist, assess whether there are other means of obtaining sufficient assurance of regular review and appraisal of the effectiveness of the system of internal controls within the bank.
- 28 The Board should review reports by considering;
 - (a) what are the significant risks and assess how they have been identified, evaluated and managed

- (b) the design and effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failures or weaknesses in internal control that have been reported
- (c) whether necessary action are being taken promptly to remedy any significant failings or weaknesses
- (d) whether the findings indicate a need for more extensive monitoring of the system of internal control

The Board's Statement on Internal Control

- 29 The Board is required by the Banking Act Direction on Corporate Governance issued by Central Bank of Sri Lanka to disclose whether there is an ongoing process for identifying, evaluating and managing the significant risks faced by the banks, whether it has been in place for the year under review, whether it is regularly reviewed by the Board and accords with such direction.
- 30 In addition, the Board is also required to present a report 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 the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. To fulfill this requirement, the Board should disclose the following as a minimum.
- (a) The Board should summarise the process it has applied in reviewing its design and effectiveness of the system of internal control.
 - (b) It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report.
 - (c) An acknowledgement by the Board that it is responsible for the bank's system of internal control and for reviewing its design and effectiveness. It should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.
 - (d) The Directors should disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the bank, whether it has been in place for the year under review, whether it is regularly reviewed by the Board.
 - (e) The Board has to disclose if it has failed to conduct a review of design the effectiveness of the bank's system of internal control.
 - (f) The Board should ensure that its disclosures provide meaningful, high level information and do not give a misleading impression.

(g) Where material subsidiaries, joint ventures and associates have not been dealt with in applying this guidance, as part of the group, that fact should be disclosed.

(h) The confirmation by the Board:

The Board should confirm in its report that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.

(i) To be signed by the directors who signed the financial statements and the chairman of the Audit Committee.

31 As a guideline to directors, an illustration of how to document control activities is attached in Appendix 1 identifying significant accounts, significant processes and key risk areas that banks have to address.

Appendix 1

An Illustration of How to Document Control Activities

This illustration gives guidance for the directors to set up the internal control mechanism of the entity that confirms the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Illustrative significant processes that are common to a financial institution have been stated as follows.

Significant Processes:

- Operations-Deposits, Withdrawals, Fee Income and Interest Expense
- Operations-Clearing and Settlement
- Credit Origination, Transaction Processing and Income Recognition
- Operations-Electronic Funds Transfers
- Treasury/Investment Securities-Valuation and Income Recognition
- Treasury/Investment Securities-Transaction Execution
- Financial Statement Close
- Cash Receipts
- Cash Disbursements
- Payroll
- Purchase and Pay Assets and Non-Interest Expense
- Investments in Affiliates/Joint Ventures
- Calculate Amortization
- Assess Assets for Impairment
- Calculate Income Taxes
- Calculate Depreciation
- Estimate Commitments and Contingencies
- Estimate Employee Benefits
- Estimate Allowance for Credit Losses
- Manage Derivatives and Hedging

The significant processes identified above affect the following significant accounts.

Significant Accounts:

- Cash and Due From Banks
- Investment Securities and Related I/S Activity
- Credit Facilities and Related Interest/Income
- Allowance and Related Provision for Credit Losses
- Other Assets and Related I/S Activity
- Deposits, Fee Income and Related Expense
- Income Taxes (Current & Deferred)
- Other Liabilities and Related I/S Activity
- Borrowings and Related I/S Activity
- Commitments, Contingencies and Related Expense
- Stockholders' Equity
- Payroll Expense and Related Accrued Liabilities

The relationship among those significant processes and significant accounts has been explained in the “Example Significant Accounts and Processes Matrix” as per Appendix 1 - A. Further, each significant process has been related to “What Can Go Wrong Questions” to identify how internal control procedures can address the key risk areas of the entity. Those “What Can Go Wrong Questions” related to each significant process have been attached in the subsequent appendices as referred in Appendix 1 – A.

Appendix 1 - A Example Significant Accounts and Processes Matrix

Banks and Savings Institutions

Example Significant Accounts

Examples Processes	Transaction Types	Cash and Due From Banks	Investment Securities and Related I/S Activity	Credit Facilities and Related Interest/Income	Allowance and Related Provision for Credit Losses	Other Assets and Related I/S Activity	Deposits, Fee Income and Related Expense	Income Taxes (Current & Deferred)	Other Liabilities and Related I/S Activity	Borrowings and Related I/S Activity	Commitments, Contingencies and Related Expense	Stockholders' Equity	Payroll Expense and Related Accrued Liabilities	Reference to "What Can Go Wrong Questions"
Operations-Deposits, Withdrawals, Fee Income and Interest Expense	Routine	x					x							Appendix 1 - B
Operations-Clearing and Settlement	Routine	x	x	x			x							Appendix 1 - C
Credit Origination, Transaction Processing and Income Recognition	Routine	x		x										Appendix 1 - D
Operations-Electronic Funds Transfers	Routine	x	x	x			x							Appendix 1 - E
Treasury/Investment Securities-Valuation and Income Recognition	Routine		x									x		Appendix 1 - F
Treasury/Investment Securities-Transaction Execution	Routine	x	x							x				Appendix 1 - G
Financial Statement Close	Non-Routine	x	x	x	x	x	x	x	x	x	x	x	x	Appendix 1 - H
Cash Receipts	Routine	x				x								Appendix 1 - I
Cash Disbursements	Routine	x							x					Appendix 1 - J
Payroll	Routine	x											x	Appendix 1 - K

Examples Processes	Transaction Types	Cash and Due From Banks	Investment Securities and Related I/S Activity	Credit Facilities and Related Interest/Income	Allowance and Related Provision for Credit Losses	Other Assets and Related I/S Activity	Deposits, Fee Income and Related Expense	Income Taxes (Current & Deferred)	Other Liabilities and Related I/S Activity	Borrowings and Related I/S Activity	Commitments, Contingencies and Related Expense	Stockholders' Equity	Payroll Expense and Related Accrued Liabilities	Reference to "What Can Go Wrong Questions"
Purchase and Pay Assets and Non-Interest Expense	Routine					x			x					Appendix 1 - L
Investments in Affiliates/Joint Ventures	Non-Routine					x								Appendix 1 - M
Calculate Amortization	Non-Routine					x								Appendix 1 - N
Assess Assets for Impairment	Estimation					x								Appendix 1 - O
Calculate Income Taxes	Non-Routine							x						Appendix 1 - P
Calculate Depreciation	Non-Routine					x								Appendix 1 - Q
Estimate Commitments and Contingencies	Estimation										x			Appendix 1 - R
Estimate Employee Benefits	Estimation								x					Appendix 1 - S
Estimate Allowance for Credit Losses	Estimation				x									Appendix 1 - T
Manage Derivatives and Hedging	Non-Routine					x			x			x		Appendix 1 - U

Appendix 1 - B
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Operations-Deposits, Withdrawals, Fee Income and Interest Expense
Transaction Type: Routine

Example Significant Accounts Affected:
 Cash and Due from Banks
 Deposits, Fee Income and Related Expense

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that fee income is charged/recorded on only valid transactions and accounts?					
2	What ensures that fictitious/duplicate deposits and/or withdrawals are not recorded?					
3	What ensures that deposits and withdrawals are correctly recorded?					
4	What ensures that interest expense is correctly recorded?					
5	What ensures that deposits and withdrawals are recorded in the proper period?					
6	What ensures that the deposit trial balance (sub ledger) is properly posted to the general ledger?					
7	What ensures that deposits and withdrawals are correctly coded?					
8	What ensures that fee income is recorded in the proper period?					
9	What ensures that interest expense is recorded in the proper period?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - C

Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Operations-Clearing and Settlement
Transaction Type: Routine

Example Significant Accounts Affected:
 Cash and Due from Banks
 Investment Securities and Related Income Statement Activity
 Credit Facilities and Related Interest/Income
 Deposits, Fee Income and Related Expense

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that clearing and settlement items are properly recorded?					
2	What ensures that errors and reconciling differences are corrected on a timely basis?					
3	What ensures that out-of-balance conditions are detected?					
4	What ensures that transactions are not concealed by posting to suspense accounts or preparing erroneous reconciliations?					
5	What ensures that transactions are cleared and settled on a timely basis?					
6	What ensures that processing information is correctly coded?					

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Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - D
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Credit Origination, Transaction Processing and Income Recognition
Transaction Type: Routine

Example Significant Accounts Affected:
 Cash and Due from Banks
 Credit Facilities and Related Interest/Income

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that credit originations/transactions are recorded for the proper amount?					
2	What ensures that the credit facility transaction file is correctly posted to the general ledger?					
3	What ensures that credit facility type, payments and disbursements are correctly coded?					
4	What ensures that interest income on credit facilities is correctly recorded?					
5	What ensures that loan disbursements, fees, payments and interest are recorded in the proper period?					
6	What ensures that recorded loans and interest income are for real borrowers?					
7	What ensures that interest calculations are based on correct principal amount, interest rate, and number of days?					

Prepared by:
 (Name and Designation of the person responsible)

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Appendix 1 - E

Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Operations-Electronic Funds Transfers
Transaction Type: Routine

Example Significant Accounts Affected:
 Cash and Due from Banks
 Investment Securities and Related Income Statement Activity
 Credit Facilities and Related Interest/Income
 Deposits, Fee Income and Related Expense

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that electronic funds transfers received/executed are correctly recorded?					
2	What ensure that fictitious, unauthorized or duplicate electronic funds transfers are not recorded?					
3	What ensures that electronic funds transfers and related charges are correctly posted to the transaction files or general ledger?					
4	What ensures that electronic funds transfers and related charges are recorded in the proper period?					
5	What ensures that electronic funds transfers and related charges are recorded at the proper amount?					

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Appendix 1 - F
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Treasury/Investment Securities-Valuation and Income Recognition
Transaction Type: Routine

Example Significant Accounts Affected:
Investment Securities and Related Income Statement Activity
Stockholders' Equity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that gains/losses on disposals are correctly recorded?					
2	What ensures that interest and related income are correctly recorded?					
3	What ensures that interest income/expense and gains/losses are recorded in the proper period?					
4	What ensures that treasury realized and unrealized gains/losses are recorded?					
5	What ensures that calculations of accrued interest income/expense are based on correct data?					
6	What ensures that valuations based on internal models are consistently applied and/or that changes to the model are appropriate?					
7	What ensures that market values used in calculating unrealized gains/losses are correct?					
8	What ensures that treasury activities are correctly classified (e.g., trading, available-for-sale, held-to-maturity)?					

Prepared by:
(Name and Designation of the person responsible)

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Appendix 1 - G

Example Risk and Control Matrix

Industry: Banks and Savings Institutions

Process: Treasury/Investment Securities-Transaction Execution

Transaction Type: Routine

Example Significant Accounts Affected:

Cash and Due from Banks

Investment Securities and Related Income Statement Activity

Borrowings and Related Interest Expense

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that treasury commitments (e.g., off-balance sheet obligations) are recorded?					
2	What ensures that treasury transactions are recorded on the trade date?					
3	What ensures that treasury transactions are recorded?					
4	What ensures that contractual interest, effective yield or exchange rates on treasury products are recorded?					
5	What ensures that the investment trial balance (sub ledger) is properly posted to the general ledger?					
6	What ensures that fictitious/duplicate investment transactions are not recorded?					
7	What ensures that collections/payments are correctly allocated to principal, interest, etc.?					

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Appendix 1 - H

Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Financial Statement Close
Transaction Type: Non-Routine

Example Significant Accounts Affected:
 All Accounts

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that elimination entries are recorded correctly?					
2	What ensures that valid journal entries are posted on a timely basis?					
3	What ensures that duplicate journal entries are not posted?					
4	What ensures that amounts reported to parent from subsidiary are correct?					
5	What ensures that accounts roll up into the correct trial balance or financial statement line?					
6	What ensures that accumulated amounts for footnotes are correct?					
7	What ensures that no errors or omissions exist in the compilation of consolidated financial statements?					
8	What ensures that the financial statements and trial are in balance (I.e., foot to zero)?					
9	What ensures that financial statement disclosures required by SLASs have been made?					
10	What ensures that financial statements are clerically accurate?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - I
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Cash Receipts
Transaction Type: Routine

Example Significant Accounts Affected:
 Cash and Due from Banks
 Other Assets and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that cash receipts are recorded when received?					
2	What ensures that cash receipts/transfers are recorded in the correct period?					
3	What ensures that coding of cash receipts is correct?					
4	What ensures that duplicate postings of cash receipts are not made to the general ledger?					
5	What ensures that cash receipts recorded equal amounts deposited?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - J
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Cash Disbursements
Transaction Type: Routine

Example Significant Accounts Affected:
Cash and Due from Banks
Other Liabilities and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that cash disbursements are correctly coded?					
2	What ensures that disbursements/transfers are recorded in the proper period?					
3	What ensures that duplicate postings of cash disbursements are not made to the general ledger?					
4	What ensures that cash disbursements are real?					
5	What ensures that all cash disbursements are recorded?					
6	What ensures that cash disbursement amounts recorded agree with amounts paid?					

Prepared by:
(Name and Designation of the person responsible)

Approved by:
(Name and Designation of the person responsible)

Appendix 1 - K
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Payroll
Transaction Type: Routine

Example Significant Accounts Affected:
 Cash and Due from Banks
 Payroll Expense and Related Accrued Liabilities

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that duplicate/fictitious paychecks are not recorded?					
2	What ensures that coding of payroll to the general ledger, subsidiary, department, etc. is correct?					
3	What ensures that payroll expenses are recorded in the proper period?					
4	What ensures that timecards correctly summarize time worked?					
5	What ensures that work performed is recorded?					
6	What ensures that payments are not made for time not worked?					
7	What ensures that correct pay rates are used in computing gross pay?					
8	What ensures that payroll expenses, including deductions, are correctly computed?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - L
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Purchase and Pay for Assets and Non-Interest Expenses
Transaction Type: Routine

Example Significant Accounts Affected:
 Other Assets and Related Income Statement Activity
 Other Liabilities and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that purchases are correctly coded?					
2	What ensures that purchases are recorded in the proper period?					
3	What ensures that purchases/payables are recorded?					
4	What ensures that vendor invoices reflect correct prices/quantities?					
5	What ensures that fictitious/duplicate purchases are not recorded?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - M
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Investments in Affiliates/Joint Ventures
Transaction Type: Non-Routine

Example Significant Accounts Affected:
 Other Assets and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that the investment and related income/loss are recorded in the proper period?					
2	What ensures that investment income/loss is correctly recorded?					
3	What ensures that recorded investments are real?					
4	What ensures that advances made to affiliates are recoverable?					
5	What ensures that the investment is not impaired or is not recoverable?					
6	What ensures that minority interest is correctly calculated?					
7	What ensures that information used for recording the investment/income is correct?					
8	What ensures that the investment is recorded using the proper method (cost vs. equity)?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - N

Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Calculate Amortization
Transaction Type: Non-Routine

Example Significant Accounts Affected:
 Other Assets and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that amortization is correctly recorded?					
2	What ensures that amortization is not recorded on assets with no future benefit?					
3	What ensures that disposed assets do not remain recorded?					
4	What ensures that amortization expense is recorded at the proper amount?					
5	What ensures that amortization is calculated using the appropriate bases?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - O
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Assess Assets for Impairment
Transaction Type: Estimation

Example Significant Accounts Affected:
 Other Assets and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that fair value declines are properly identified and recorded?					
2	What ensures that all factors affecting the impairment estimate are identified?					
3	What ensures that assumptions for the impairment estimate are correct?					
4	What ensures that fair value declines are properly valued?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - P
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Calculate Income Taxes

Example Significant Accounts Affected:
 Income Taxes (Current, Deferred) and Related Income
 Statement Activity

Transaction Type: Non-Routine

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that tax expenses are recorded in the proper period?					
2	What ensures that tax exposures and valuation allowances are properly calculated and recorded?					
3	What ensures that the correct book income amount is used in the tax accrual?					
4	What ensures that permanent/temporary differences are identified?					
5	What ensures that tax assets/liabilities/expenses are correctly calculated?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - Q
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Calculate Depreciation
Transaction Type: Non-Routine

Example Significant Accounts Affected:
 Other Assets and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that depreciation is properly recorded?					
2	What ensures that disposed assets (sales and write-offs) do not remain recorded?					
3	What ensures that depreciation expense is recorded at the correct amount?					
4	What ensures that depreciation is calculated using the appropriate bases?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - R
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Estimate Commitments and Contingencies
Transaction Type: Estimation

Example Significant Accounts Affected:
 Commitments, Contingencies and Related Expense

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that commitments and contingencies are identified and recorded?					
2	What ensures that factors affecting contingency estimates are identified?					
3	What ensures that assumptions for commitments and contingencies are correct?					
4	What ensures that commitments and contingencies are based on accurate data?					
5	What ensures that commitments and contingencies are correctly calculated?					

Prepared by:.....
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - S
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Estimate Employee Benefits
Transaction Type: Estimation

Example Significant Accounts Affected:
 Other Liabilities and Related Income Statement Activity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that employee benefits expense is recorded in the proper period?					
2	What ensures that employee benefits expense is based on accurate underlying data?					
3	What ensures that employee benefits liability is calculated using the correct assumptions?					

Prepared by:.....
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - T
Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Estimate Allowance for Credit Losses
Transaction Type: Estimation

Example Significant Accounts Affected:
 Allowance and Related Provision for Credit Losses

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that credit loss allowances are recorded?					
2	What ensures that delinquent loans are identified?					
3	What ensures that the credit loss allowance does not include a reserve for future losses?					
4	What ensures that the allowance calculation is based on accurate data?					
5	What ensures that credit loss allowances are properly calculated?					
6	What ensures that factors affecting the credit loss allowance are considered?					

Prepared by:.....
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

Appendix 1 - U

Example Risk and Control Matrix

Industry: Banks and Savings Institutions
Process: Manage Derivatives and Hedging
Transaction Type: Non-Routine

Example Significant Accounts Affected:
 Other Assets and Related Income Statement Activity
 Other Liabilities and Related Income Statement Activity
 Stockholders' Equity

No	Example "What Can Go Wrong" Questions	Applicable Internal Control procedures to address the question				
		Internal Control 1	Internal Control 2	Internal Control 3	Internal Control 4	Internal Control 5
1	What ensures that derivative instruments are properly identified and recorded?					
2	What ensures that derivative instruments are real?					
3	What ensures that hedge accounting documentation (including documentation of hedging instrument and hedged item) is adequate?					
4	What ensures that hedge effectiveness is properly calculated and monitored?					
5	What ensures that derivative instruments are correctly valued?					
6	What ensures that derivative and hedging activities are properly presented in the financial statements?					
7	What ensures that derivative and hedging disclosures are proper/adequate?					

Prepared by:
 (Name and Designation of the person responsible)

Approved by:
 (Name and Designation of the person responsible)

**SRI LANKA STANDARD ON
ASSURANCE ENGAGEMENTS 3050**

**ASSURANCE REPORT FOR BANKS ON DIRECTORS' STATEMENT
ON INTERNAL CONTROL**

(This Standard is effective for assurance reports dated on or after 01 November 2010)

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Introduction

- 1 The purpose of this Sri Lanka Standard on Assurance Engagements (SLSAE) is to establish and provide guidance on assurance engagements to report on the Directors' Statement on Internal Control.
- 2 Auditor is required to report on the Directors' Statement on Internal Control relating to effectiveness of internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Auditors' Responsibilities with respect to Directors' Statement on Internal Control

- 3 The objective of the engagement is to assess whether the Statement on Internal Control appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the system of internal control.
- 4 To achieve this objective, appropriate evidence will have to be obtained by performing the following procedures:
 - (a) Enquire of the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compare their understanding to the Statement intended to be made by the directors in the annual report.
 - (b) Review the documentation prepared by or for the directors to support their Statement intended to be made.
 - (c) Relate the Statement intended to be made by the directors to the auditor's knowledge of the bank obtained during the audit of the financial statements.
 - (d) Review the minutes of the meetings of the Board of Directors and of relevant Board Committees.

- (e) Attend meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- (f) Consider whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising. Where any such matter has been identified, the auditors should consider the matter and the implications on the Directors' Statement on Internal Control to the date of the approval of the annual report.
- (g) Obtain written representations from directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- (h) Directors' Statement on Internal Control should disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report. To address the above, the auditors should;
 - discuss with the directors the steps that have been taken by them to determine what significant problems are disclosed in the annual report; and
 - assess whether disclosures made by the directors of the processes they have applied to deal with material internal control aspects of any significant problems disclosed in the annual report appropriately reflect those processes.

The auditors are not required to assess whether the processes described by the directors will, in fact, remedy the problem described in the annual report. This also has to be communicated through the assurance report.

- (i) If the auditor is aware of a significant problem that is disclosed in the annual report for which the directors have not disclosed the material internal control aspects, the auditors should discuss the position with the directors of the bank.
- (j) The auditor should consider whether the directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the bank, whether it has been in place for the year under review,

whether it is regularly reviewed by the Board. Further the auditor should consider whether the explanation is consistent with the auditor's understanding.

Contents of the Auditor's Assurance Report to Board of Directors

- 5 The assurance report should include the following basic elements:
- (a) A title that clearly indicates the report is an independent assurance report.
 - (b) An addressee: an addressee identifies the party or parties to whom the assurance report is directed.
 - (c) An identification and description of the assurance engagement:
 - The nature of the engagement;
 - The point in time or period of time to which the engagement relates;
 - The name of the entity or component of the entity to which the engagement relates; and
 - (d) The responsibility of the management: this informs management's responsibility for the preparation and presentation of the Directors' Statement on Internal Control and the respective guidelines in preparation.
 - (e) The responsibility of the auditor to issue a report to the Board on the Directors' Statement on Internal Control based on the work carried out by the auditor.
 - (f) A statement that the engagement was performed in accordance with SLSAE 3050.
 - (g) A summary of the work performed.
 - The fact that the engagement is conducted to assess whether the Statement on Internal Control appropriately reflects that process the directors have adopted in reviewing the design and effectiveness of the system of internal control

- The fact that the auditors are not expected to assess whether all risks and controls have been addressed by the directors or that risks are satisfactorily addressed by internal control, has to be clearly stated in the report.
 - The fact that the auditors are not required to assess whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report by the directors will, in fact, remedy the problems.
- (h) The auditor's conclusion: the report should contain a clear written expression of negative assurance.
- (i) The date of the assurance report
- (j) The address of the auditor or the firm

Other Reporting Responsibilities

- 6 The auditors should report the following circumstances to the Board of Directors with a view to seek revision of their draft statement, if they conclude:
- (a) that the directors' summary of the process they have applied in reviewing the design and effectiveness of internal control is either not supported by or does not appropriately reflect the auditor's understanding of the process undertaken;
 - (b) that the processes disclosed to deal with material internal control aspects of significant problems disclosed in the annual report do not appropriately reflect the auditors' understanding of the process undertaken;
 - (c) that no disclosure has been made by the directors that they have failed to conduct a review of the design and effectiveness of the system of internal control;
 - (d) where the directors disclosed that they have not reviewed the design and effectiveness of the system of internal control, that their explanations are not consistent with the auditors' understanding; or
 - (e) that no disclosure has been made by the directors that a material joint venture or associated bank has not been dealt with as part of the Group.

- 7 If revisions sought are not accepted by the Board of Directors, the auditors should consider the implications on their reporting responsibilities including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.
- 8 The auditors are not expected to actively search for misstatements or inconsistencies. However, if the auditors become aware of such a matter, the auditors should discuss it with the directors to seek to establish the significance of the lack of proper disclosure. If such lack of proper disclosure is considered significant by the auditors and the directors cannot be persuaded to amend the disclosure to the auditors' satisfaction, the auditors should consider the implications on the auditors' reporting responsibilities and may need to take legal advice.
- 9 If after reviewing the Statement on Internal Control, the auditors identify a material inconsistency, the auditors should determine whether the financial statements or Statement on Internal Control need to be amended.
- 10 If an amendment is necessary in the financial statements and the directors refuse to make the amendment, the auditors should express qualified or adverse opinion.
- 11 If an amendment is necessary in the Statement on Internal Control but not the financial statements, and the directors refuse to make the necessary amendments, the auditors should consider taking further appropriate action, including disclosure in the auditors' report to members. However, as this does not give rise to a qualified audit opinion on the financial statements it is recommended that the auditors' comments are included under the heading "Other matters".

Effective Date

- 12 This SLSAE is effective for assurance engagements where the assurance report is dated on or after 01 November 2010. Earlier application is permissible.

Appendix 1

Example of Independent Assurance Report

To the Board of Directors of ABC Bank PLC

Introduction

We were engaged by the Board of Directors of ABC Bank PLC (“Bank”) to provide assurance on the Directors’ Statement on Internal Control (“Statement”) included in the annual report for the year ended 31st December 20XX.

Management’s responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the “Guidance for Directors of Banks on the Directors’ Statement on Internal Control” issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors’ Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

[Enumerate procedures as required]

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank’s risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control of the Bank.

(Audit firm)

Colombo

(Date)

Appendix 2

Example of an Engagement Letter for an Assurance Engagement

The following is an illustrative example of paragraphs that may be included in the auditor's engagement letter dealing with their responsibility with respect to the Directors' Statement on Internal Control as required by the Banking Act Directions.

To the Board of Directors:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

As per section 3(8)(ii)(c) of the Banking Act Direction No. 11 of 2007, the bank must ensure that the external auditors issue the assurance report on the Directors' Statement on Internal Control to the Board of Directors of the bank.

Accordingly, we will carry out the engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

[Scope may be explained as required]

Under this engagement, we will not perform an audit and, accordingly, we will not express an audit opinion on them.

Responsibility for the Statement on Internal Control is that of the directors of the bank. The directors are responsible for ensuring that the bank complies with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks in Sri Lanka in relation to the Directors' Statement on Internal Control. In preparing the Statement on Internal Control, the directors should be guided by the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka.

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable). Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

[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 arrangements for the assurance engagement.

XYZ & Co

Acknowledged on behalf of ABC Bank PLC by

(signed)

.....

Name and Title

Date

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)

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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 (ICASL) was requested by the CBSL to develop a guidance to practitioners to comply with the above direction. ICASL 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 (SLRS 4400).
- 3 ICASL 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

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 appraised 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) 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)	<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; (e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (g) 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			

	<p>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)	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)	<p>Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher</p> <p>Check if non-executive directors can be considered independent if he/she:</p>				
	<p>a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;</p>				
	<p>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.</p>				
	<p>c) has been employed by the bank during the two year period immediately preceding the appointment as director.</p>				
	<p>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)</p>				
	<p>e) represents a specific stakeholder of the bank</p>				
	<p>f) is an employee or a director or a material shareholder in a company or business organization:</p> <p style="padding-left: 40px;">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 style="padding-left: 40px;">II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or</p> <p style="padding-left: 40px;">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>				
3(2)(v)	<p>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.</p>				
3(2)(vi)	<p>Check that the bank has a process for appointing independent directors.</p>				

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)	<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>				
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)	<p>Check that the board has a self evaluation process where the chairman:</p> <p>(a) provides leadership to the board;</p> <p>(b) ensures that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensures that all key and appropriate issues are discussed by the board in a timely manner.</p>				
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)	<p>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.</p> <p>Check that each board committee report is addressed directly to the board.</p> <p>Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.</p>				
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.				
	<p>c) Check that the committee has made recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(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.</p>				

	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>(i)</i> major judgmental areas; <i>(ii)</i> any changes in accounting policies and practices; <i>(iii)</i> the going concern assumption; and <i>(iv)</i> the compliance with relevant accounting standards and other legal requirements, and; <i>(v)</i> 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				

		<p>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 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)	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)	<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> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>				
	n)	Check that the committee has met, at least four times and maintained minutes.				
	o)	<p>Check that the board has disclosed in the annual report,</p> <p>(i) details of the activities of the audit committee;</p> <p>(ii) the number of audit committee meetings held in the year; and</p> <p>(iii) details of attendance of each individual director at such meetings</p>				
	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>i.e.</i> , credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.				
	b)	Check that the committee has a process to assess all risks, <i>i.e.</i> , 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)	<p>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:</p> <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; 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				

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) Check the board approval, 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)	<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>(h) 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> <p>Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting</p>	
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)	<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>	
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)	<p>Check that the board has a self evaluation process where the chairman:</p> <p>(a) provides leadership to the board;</p> <p>(b) ensures that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensures that all key and appropriate issues are discussed by the board in a timely manner.</p>	
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)	<p>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> <ul style="list-style-type: none"> (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)	<p>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.</p>	
i)	<p>Check that the committee has reviewed the external auditor's management letter and the management's response thereto.</p>	
j)	<p>Check that the committee shall take the following steps with regard to the internal audit function of the bank:</p> <ul style="list-style-type: none"> 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 appraised 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; <ul style="list-style-type: none"> (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, <ul style="list-style-type: none"> (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; <ul style="list-style-type: none"> 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>i.e.</i> , credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	
	b)	Check that the committee has a process to assess all risks, <i>i.e.</i> , 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)	<p>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:</p> <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; 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)	<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.	
	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	