

Recommend four (04) changes that should be made to the existing governance structure, after CAPL becomes a listed entity.

- ✓ The Board of CAPL should establish an audit committee exclusively consisting of nonexecutive directors with a minimum of three non- executive directors of whom at least two should be independent. If there are more non-executive directors, the majority should be independent. The committee should be chaired by an independent non-executive director.
- ✓ The Board of CAPL should, at least annually, monitor the company's risk management and internal control systems to ensure such systems are operating effectively. The company should have an internal audit function.
- ✓ A related party transactions review committee should be established consisting exclusively of non-executive directors with a minimum of three non-executive directors of whom the majority should be independent.
- ✓ It must adopt a Code of Business Conduct & Ethics for Directors, Key management personnel and all other employees

Assess the corporate governance practices prevalent in CAPL and recommend four (04) major improvements by referring to the Code of Best Practice on Corporate Governance.

The following are some areas where the company lacks good governance practices, and ways to improve them.

- ✓ Board balance – it appears that CAPL does not have a balanced board, where there is a balance of executive and non-executive directors. The board has no non-executive directors. Hence, it could appoint more non-executive directors with sufficient knowledge and expertise to improve the board balance.
- ✓ Financial acumen – it appears that the board does not contain a suitably qualified finance professional who can guide it on matters related to finance. It could consider appointing a suitably qualified and experienced finance professional, so that company could overcome the financial irregularities it is facing.
- ✓ Absence of audit, remuneration and nomination committees – it appears that CAPL does not have such committees as prescribed by the Code of Best Practice on Corporate Governance. The board could consider appointing such committees if a listing is planned.
- ✓ Lack of an internal audit function – the board should ensure that an independent internal audit function is in existence. It should take necessary measures to ensure a proper internal audit function is carried out.

CAPL is planning to list its ordinary shares on the Colombo Stock Exchange, (Diri Savi Board) in the next year. Assess the board balance and appointments to the board of the existing governance structure of the company.

Currently all the directors of the company are family members and therefore not independent.

However, if the company is listed in Diri Savi Board, the board should have a balance of executive and nonexecutive directors and the board should include at least 2 non-executive directors where the

constitution of the entity includes only two non-executive directors, both non-executive directors should be independent. Then no individual or small group of individuals can dominate the board decision taking.

Appointments to the board Currently, directors join the company due to the family relationships that they have with the founder.

If the company is listed there should be a formal and transparent procedure for the appointment of new directors to the board. A Nomination Committee should be established to make recommendations to the board on all new board appointments.

As part of identifying improvements to the current governance structure of CAPL:

Explain four (04) actions that could be implemented by the board of CAPL to prevent fraud.

- ✓ Direct the management to establish procedures and controls for detecting and preventing fraud and bribery and receive reports on non-compliance.
- ✓ Regularly review the procedures and controls established for detecting and preventing fraud and bribery, and receive reports on non-compliance. The board should assess the proper functioning of internal controls. This can be done by reviewing the internal audit reports and properly evaluating the audit results provided by the external auditor.
- ✓ Ensure confidentiality of whistleblowing employees. A whistleblowing policy can be introduced to ensure the confidentiality of whistleblowers. From that, the upper level employees who are performing oversight functions can obtain information from those at lower levels.
- ✓ Address concerns or allegations promptly. Follow up complaints of wrongdoings promptly.
- ✓ Maintain a system of internal controls and code of conduct. Define standard operating practices and segregation of duties. A code of ethics can be introduced to the company, and the people at the firm can be educated on the importance of adhering to ethics. They should also be educated on the control environment and the actions to be taken on violations.
- ✓ Identify key fraud risks. Identify the areas where fraud could occur, establish appropriate authorisation limits and reporting. Establish a proper internal audit function. The independence of the function should be ensured by establishing a proper reporting structure.
- ✓ The internal audit plan should be properly initiated and through that the board will be able to find out weaknesses in the internal controls that could lead to fraud.