

CORPORATE GOVERNANCE REVIEW 2021

**STATE OWNED &
SHAREHOLDING COMPANIES**

**SECRETARIAT FOR
PRIVATIZATION AND CORPORATIZATION BOARD**



CORPORATE GOVERNANCE REVIEW – AUGUST 2021

31th August 2021

SUMMARY

Corporate Governance has become an important aspect in the recent years throughout the corporate world. Strong corporate governance not only helps to reduce fraud and corruption but also helps to increase value through efficiency and competitiveness. Corporate Governance refers to the way a corporation is governed and is the technique by which companies are directed and managed. Capital Market Development Authority of Maldives has published a corporate governance code in 2008. Although the code is compulsory for all the public listed companies, other companies can voluntarily adopt the code for better governance.

On 1st May 2019, Privatization and Corporatization Board (PCB) has issued a corporate governance code for state owned enterprises. This code provides guidance on how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance can be optimized. Furthermore, it provides recommendations on elements such as responsibilities of the board, composition of the board and sub-committees, management matters, internal and external audit and disclosure.

Aim of this report is to understand and review the corporate governance status of the State-Owned Enterprises (SOE's) excluding minority shareholding and listed SOEs.

This report is based on the information provided by the relevant senior staffs of the companies during the interview and review of relevant documents by PCB Secretariat on and before 31th August 2021. Therefore, this report reflects the status of the companies as at 31th August 2021.

SUMMARY OF AREAS REVIEWED IN 2020 AND 2021

Table 1: Composition of the Board and Board's Performance Evaluation

#	Entity	Review 2020			Review 2021			
		Composition	Strategic Plan	Performance Evaluation	Composition	KPIs	Strategic Plan	Performance Evaluation
1	HDC	5 members (3 NEDs, 2 ED)	No	Yes	11 members (3 ED, COO)	Yes	Yes	Yes
2	MPL	7 members (5 NEDs, 2 ED)	No	No	6 members (4 NEDs, 2 ED)	Yes	Yes	No
3	MWSC	7 members (5 NEDs, 2ED)	Yes	Yes	7 members (5 NEDs, 2ED)	Yes	Yes	No
4	MACL	7 members (6 NEDs, 1 ED)	No	No	5 members (4 NED and 1 ED)	Yes	No	Yes
5	STELCO	5 members (3 NEDSs, 2 ED)	No	Yes	5 members (3 NEDSs, 2 ED)	Yes	No	Yes
6	IASL	6 members (4 NEDs, 2 ED)	No	No	7 members (5 NED and 2 ED)	No	Yes	No
7	Post ltd	5 members (3 NEDs, 2 ED)	Yes	No	5 members (3 NEDs, 2 ED)	Yes	Yes	Yes
8	Asandha	5 members (4 NEDs, 1 ED)	No	No	5 members (4 NEDs, 1 ED)	Yes	No	No
9	AIA	6 members (5 NEDs, 1 ED)	Yes	No	6 members (5 NEDs, 1 ED)	No	Yes	Yes
10	WAMCO	5 members (4 NEDs and 1 ED)	No	No	5 members (3 NED and 2 ED)	No	No	Yes
11	MSCL	5 members (3 NEDs and 2 ED)	Yes	Yes	5 members (3 NED and 2 ED)	Yes	Yes	Yes
12	Fenaka	7 members (5 NEDs, 2 Eds)	No	No	7 members (5 NED and 2 ED)	Yes	No	No
13	PSM	5 members (3 NEDs, 2 ED)	No	No	5 members (3 NED and 2 ED)	Yes	No	No
14	MMPRC	5 members (4 NEDs and 1 ED)	No	No	6 members (4 NEDs and 1 ED)	Yes	No	No
15	MHCL	5 members (4 NEDs and 1 ED)	Yes	No	5 members (4 NED and 1 ED)	Yes	Yes	Yes
16	MITDC	5 members (4 NEDs and 1 ED)	Yes	No	5 members (4 NEDs and 1 ED)	Yes	Yes	Yes
17	BCC	4 members (3 NEDs, 1 ED)	No	No	4 members (3 NED and 1 ED)	Yes	No	No
18	KACL	7 members (6 NEDs, 1 ED)	No	No	7 members (6 Ned and 1 ED)	Yes	No	No
19	SDFC	6 members (5 NEDs, 1 ED)	Yes	No	4 members (3 NEDs, 1 EDs)	Yes	Yes	No
20	FDC	7 members (6 NEDs, 1 ED)	No	Yes	7 members (6 NEDs, 1 ED)	Yes	Yes	Yes
21	MFMC	4 members (2 NEDs, 2 EDs)	No	No	4 members (2 NEDs, 2 EDs)	No	No	No
22	RDC	4 members (2 NEDs, 2 EDs)	No	No	5 members (4 NEDs, 1 EDs)	Yes	Yes	Yes
23	TradeNet	7 members (6 NEDs, 1 ED)	No	No	7 members (6 NEDs, 1 ED)	No	No	No
24	RACL				7 members (6 NEDs, 1 ED)	Yes	Yes	No

It is identified that board composition of some companies is not complete due to vacant seats in the board. Furthermore, Company Secretary of some of the companies highlighted that the contribution from their Non-executive directors are not adequate during the board proceedings. To ensure efficiency and effectiveness, it is important that SOEs perform annual performance evaluation of the board which could be then reviewed by PCB. Currently, over 50% of SOEs do not evaluate its board's performance. Similarly, we have identified that Non-financial Key Performance Indicator (KPIs) is not set for 20% of the SOEs in 2021. These non-financial KPIs could cover areas such as quality management, governance and process efficiency. 46% of SOEs does not have strategic plan formulated within the business.

It is important that companies evaluate their board's performance as per the CG code requirement so that PCB can monitor the board's composition and their effectiveness on a routine basis.

Table 2: Audit Committee, Internal Audit and Risk Management

#	Entity	Review 2020					Review 2021				
		Audit committee	Qualified members?	Audit Charter	Internal Audit	Risk management	Audit committee	Qualified members?	Audit Charter	Internal Audit	Risk management
1	HDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	MPL	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
3	MWSC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
4	MACL	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5	STELCO	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	No
6	IASL	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
7	Post ltd	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No
8	Aasandha	Yes	No	No	No	No	Yes	No	Yes	Yes	No
9	AIA	No	No	No	No	Yes	Yes	No	Yes	No	No
10	WAMCO	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
11	MSCL	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No
12	Fenaka	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No
13	PSM	No	No	No	Yes	No	Yes	No	No	Yes	No
14	MMPRC	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No
15	MHCL	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No
16	MITDC	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No
17	BCC	No	No	No	No	No	Yes	Yes	No	No	No
18	KACL	Yes	Yes	No	No	No	Yes	Yes	Yes	No	No
19	SDFC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20	FDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
21	MFMC	Yes	Yes	No	No	No	Yes	Yes	No	Yes	No
22	RDC	No	No	No	No	No	Yes	No	Yes	Yes	No
23	TradeNet	No	No	No	No	No	Yes	Yes	Yes	No	No
24	RACL						Yes	Yes	No	Yes	No

Although audit committees were not formed when reviewed in 2020, companies have worked to establish committee for all the companies and 81% of SOEs have formulated audit charter which is essential to operationalize the internal audit function. However, the issue of competent members in the audit committee remains as 9 out of 24 companies noted that qualified members from auditing or finance background lack in the committee. It is important to note that 15% of SOEs does not have well established internal audit function. Among 20 companies who have internal audit function, 6 companies have outsourced the function (Aasandha, MSCL, MMPRC, MITDC, FDC and MFMC). It is identified that some companies face resource limitation to effectively function the internal audit, while other company’s lack a competent leader in the internal audit department. Hence, as per our meetings we can conclude that around 7-10 company’s internal audit function are properly and effectively functioning. In addition to that, it was identified that 79% of SOEs have not formulated risk management policies.

As per the corporate governance code, it is vital that SOEs have at least an audit committee as board's subcommittee and the Chairperson of the audit committee should have substantial accounting or financial experience, and audit committee must exercise its internal audit function independently to create a proper check and balance system. Although most of the companies manage risk through internal audits, a proper risk management system is not in place within the businesses. Risk management is important for SOEs as it is a practice of identifying and analyzing potential risks in advance and taking necessary and precautionary action to reduce those risks.

During the review meetings held with the companies, we recommended to give high priority to these areas and speed up the process of establishing internal audit and risk management function.

Table 3: Corporate Governance - Minimum requirement for SOEs

#	Entity	CG resolution	Register of directors	Register of interest	Policy on performance evaluation	Results of PE 2020	Board Annual plan 2021	Code of ethics	Internal audit function
1	HDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	MPL	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
3	MWSC	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
4	MACL	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
5	STELCO	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
6	IASL	Yes	Yes	Yes	No	No	No	No	Yes
7	POST	Yes	Yes	No	Yes	No	Yes	No	Yes
8	Aasandha	Yes	Yes	No	No	No	Yes	No	Yes
9	AIA	Yes	Yes	No	Yes	No	Yes	Yes	No
10	WAMCO	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
11	MSCL	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
12	Fenaka	Yes	Yes	Yes	No	No	Yes	Yes	Yes
13	PSM	Yes	No	No	No	No	No	No	Yes
14	MMPRC	Yes	No	No	No	No	No	No	Yes
15	MHCL	Yes	No	No	Yes	Yes	Yes	Yes	Yes
16	MITDC	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
17	BCC	Yes	Yes	Yes	No	No	Yes	No	No
18	KACL	Yes	Yes	Yes	No	No	Yes	No	No
19	SDFC	Yes	Yes	Yes	No	No	No	No	Yes
20	FDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
21	MFMC	Yes	No	No	No	No	No	Yes	Yes
22	RDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
23	TradeNet	Yes	No	No	No	No	No	No	No
24	RACL	Yes	No	No	Yes	No	No	Yes	Yes

With the implementation of Corporate Governance Code in 2019, a timeline to formulate minimum required policies and procedures of CG code (as seen in table 3) were set by discussing with all the SOEs. Majority of formulations were agreed to be completed by the end of 2019 and few others were agreed to be completed by end of January 2020.

It is identified that except for few, most of the companies have worked to formulated policies and other requirements by CG code. However important to note that very few companies have fully complied with the requirements, namely HDC, MSCL and FDC. Most of the companies have failed to formulate a policy to evaluate board's performance and thus evaluation results are pending.

Few companies do not have a proper internal audit function, which may result to a potential business risks which includes the risk of internal control deficiencies, lack of compliance with company policies and procedures etc. As such, it is recommended to establish internal audit function and to have competent CIAs to enable an effective functioning of a proper check and balance system within the company.

During the review meetings held with the companies, we have recommended to give high importance to this area and speed up the process of formulating necessary policies and evaluations.

Table 4: Minimum requirement of CIA

Review 2020					Review 2021				
#	Entity	Board resolution - CIA	Fit & proper assessment by company	Status	#	Entity	Board resolution - CIA	Fit & proper assessment by company	Status
1	HDC	Yes	Yes	Fail	1	HDC	Yes	Yes	2-year period end in Dec 2021
2	MPL	Yes	Yes	Fail	2	MPL	Yes	No	Hiring process ongoing
3	MWSC	Yes	No	Vacant	3	MWSC	Yes	Yes	Pass
4	MACL	Yes	Yes	Pass	4	MACL	Yes	Yes	Pass
5	STELCO	Yes	Yes	Fail	5	STELCO	Yes	Yes	Fail
6	IASL	No	No	Fail	6	IASL	No	-	Vacant
7	POST	No	No	Vacant	7	POST	No	-	Vacant
8	Aasandha	Yes	No	Vacant	8	Aasandha	Yes	Outsource	Pass
9	AIA	Yes	No	Vacant	9	AIA	Yes	-	Vacant
10	WAMCO	Yes	No	Pass	10	WAMCO	Yes	Yes	Pass
11	MSCL	Yes	Outsource	Pass	11	MSCL	Yes	Outsource	Pass
12	Fenaka	Yes	No	Pass	12	Fenaka	Yes	Yes	Pass
13	PSM	No	No	Fail	13	PSM	No	No	Pass
14	MMPRC	Yes	Outsource	Pass	14	MMPRC	Yes	Outsource	Pass
15	MHCL	Yes	Yes	Pass	15	MHCL	Yes	No	CIA vacant- Head of IA (manager) does not meet minimum requirement
16	MITDC	Yes	No	Vacant	16	MITDC	Yes	Outsource	Pass
17	BCC	Yes	No	Vacant	17	BCC	Yes	-	Vacant
18	KACL	Yes	No	Vacant	18	KACL	Yes	-	Vacant
19	SDFC	Yes	Outsource	Pass	19	SDFC	Yes	No	CIA vacant- Head of IA (manager) does not meet minimum requirement
20	FDC	Yes	Yes	Pass	20	FDC	Yes	Outsource	Pass
21	MFMC	Yes	No	Vacant	21	MFMC	Yes	Outsource	Pass
22	RDC	Yes	No	Vacant	22	RDC	Yes	Yes	Pass
23	TradeNet	No	No	Vacant	23	TradeNet	No	-	Vacant
24	RACL				24	RACL	No	Yes	Pass

Note: MPL's new CIA is hired and set to commence work on 15th September 2021, CV and fit & proper is yet To Be Checked

Minimum requirement of Chief Internal Auditors (CIA) was implemented to all the SOEs by Ministry of Finance, based on the guidelines set by the State Internal Audit Committee in October 2019. The main objective of this was to ensure all the SOEs are deployed with competent CIAs who oversee internal audit department, by considering the size of each SOE through their categories.

During the review meetings with companies it was noticed that even though company has passed the resolution, some of the companies have not properly followed the guidelines stated in the policy on the minimum requirement of CIA. As such, 9 companies are operating its internal audit department without a qualified CIA, which seems to have improved compared to 2020. Those companies who do not have a CIA manages the department with a senior

manager and, it is understandable that this person must meet the minimum requirements of CIA, which were reviewed by inspecting CVs of those personnel. And it was identified that person in-charge of internal audit in those companies do not meet the minimum requirement criteria.

It was recommended to speed up the process of hiring competent CIAs to enable a proper internal audit function for the relevant companies.

Table 5: Minimum requirement of CFO

Review 2020					Review 2021				
#	Entity	Board resolution passed?	Fit & proper assessment by company	Status	#	Entity	Board resolution passed?	Fit & proper assessment by company	Status
1	HDC	Yes	Yes	Pass	1	HDC	Yes	Yes	Pass
2	MPL	Yes	Yes	Pass	2	MPL	Yes	Yes	Pass
3	MWSC	Yes	No	Vacant	3	MWSC	Yes	-	CFO vacant (currently advertised for CFO)
4	MACL	Yes	No	Vacant	4	MACL	Yes	-	CFO vacant- head of finance CV not received
5	STELCO	Yes	Yes	Pass	5	STELCO	Yes	Yes	Pass
6	IASL	Yes	No	Fail	6	IASL	Yes	Yes	Pass
7	POST	No	No	Pass	7	POST	Yes	No	Fail
8	Aasandha	Yes	No	Pass	8	Aasandha	Yes	Yes	Pass
9	AIA	Yes	No	Pass	9	AIA	Yes	Yes	Pass
10	WAMCO	Yes	No	Pass	10	WAMCO	Yes	Yes	Pass
11	MSCL	Yes	Yes	Pass	11	MSCL	Yes	-	CFO vacant- Acting Head of finance does not meet minimum requirement
12	Fenaka	No	Yes	Fail	12	Fenaka	No	Yes	Pass
13	PSM	Yes	No	Vacant	13	PSM	Yes	No	CFO vacant- Acting Head of finance does not meet minimum requirement
14	MMPRC	Yes	Yes	Fail	14	MMPRC	Yes	-	CFO vacant - Acting Head of finance does not meet minimum requirement
15	MHCL	Yes	Yes	Pass	15	MHCL	Yes	Yes	Pass
16	MITDC	No	No	Pass	16	MITDC	No	Yes	Pass
17	BCC	Yes	No	Fail	17	BCC	Yes	-	CFO vacant- Head of finance does not meet minimum requirement
18	KACL	Yes	No	Pass	18	KACL	Yes	No	Pass
19	SDFC	Yes	No	Pass	19	SDFC	Yes	-	CFO vacant -Head of Finance meets the minimum requirement
20	FDC	Yes	No	Pass	20	FDC	Yes	Yes	Pass
21	MFMC	Yes	No	Pass	21	MFMC	Yes	-	CFO vacant- Head of finance does not meet minimum requirement
22	RDC	No	No	Pass	22	RDC	No	Yes	Pass
23	TradeNet	Yes	No	Pass	23	TradeNet	Yes	Yes	Pass
24	RACL				24	RACL	No	No	CFO vacant - Head of finance (senior manager) does not meet minimum requirement

It is understood that a company without a qualified CFO but who is employed as the head of finance, shall obtain the minimum requirement of CFO set by MoF. As such, we have assessed fit and proper of the person who takes CFO's or head of the department's responsibility.

Based on the fit and proper assessments and CVs, we can confirm that one company does not meet the minimum requirement of CFO. More importantly, there are 9 companies without CFO post indicating that there is no competent leader in the finance department who is responsible for the financial decisions of the company. A competent financial leader plays a vital role in any business, who is responsible for the financial planning and execution, overall managing finance and accounting function of the company while ensuring that reports are timely and fairly presented.

As such it was recommended to speed up the process of hiring competent CFOs where necessary.

MAJOR HIGHLIGHTS FROM INDIVIDUAL COMPANIES

RACL

Company's internal audit work is carried out solely by CIA. Company's risk management function has not yet been established and has planned to work on risk management policy in October 2021. Company does not employ a CFO and board endorsement has not been made for the minimum requirement of CIA. Senior manager of finance is taking the responsibility of CFO, hence we assume the person taking responsibility of CFO must meet the minimum requirement. Therefore, Curriculum Vitae was reviewed and confirmed that head of finance does not meet the minimum requirement of CFO (lack senior level experience). In addition to that, minimum required policies and procedures have not been formulated as per the Corporate Governance Code. Company was recommended to comply and formulate the policies and procedures according to the Corporate Governance Code.

BCC

Company has not formulated both strategic plan and policy on performance evaluation of the board. Company has formed an audit committee, but audit charter has not been formed and no meetings were held to date. It must be noted that audit committee members do not have finance background person due to lack of relevant qualified people in the board. However, the company is in the process of outsourcing its internal audit department. At present, BCC has issued RFQ to find an internal audit firm. The position of CFO is vacant for more than 3 months and there is no active advertisement, hence we reviewed the CV of head of finance and can confirm that he does not meet the minimum requirement of CFO (lack senior management experience).

Fenaka

Although there is a strategic plan, the board/management does not review it periodically. As a result, the strategic plan of the company is out dated and due this reason it is identified as a company without a strategic plan in Table 1. Company is yet to formulate the policy on performance evaluation of the board, which would enable board's annual evaluation.

The audit committee members are not from finance background, however CIA informed that audit committee's contribution is good and is functioning well. Audit committee evaluates the performance of CIA annually. However, it is understandable that without relevant knowledge and experience, audit committee members would not be able to effectively contribute to the work of CIA and internal audit function.

As per CIA, internal audit department of Fenaka is well functioning and to date they have achieved 60% of internal audit work plan. However, it is important to note that company has not formulated a risk management policy yet.

HDC

It was noted from previous year's governance review that CIA does not fit according to the minimum requirements of CIA. Hence, as per the policy CIA opted for 2-year period to achieve the requirement. During this year's review, CIA informed that the two-year period will expire on December 2021, and education is still ongoing, as it was delayed due to pandemic, indicating CIA's qualification will not comply with the policy at the end of 2-year period.

As per the company secretary the board and audit committee functions well. Further, the company complies with most of the requirements of CG Code.

IASL

Although non-executive directors and chairman contributes well in the board meetings, it was highlighted that board members lack the technical and experience which is relevant to an airline company and aviation industry.

Company has a backlog of completing CG code requirements namely, boards annual plan, policy on performance evaluation and code of ethics which were recommended to speed up and formulate as soon as possible.

Currently the position of Chief Internal Auditor is vacant but the internal audit department works are on-going with 2 junior staffs. The staffs directly report to audit committee. However, in the absence of an CIA an internal audit department would not function effectively and efficiently. Further, the company is planning to outsource this function. It is highly recommended that company keeps the internal audit function in-house with a competent team as the company is highly sophisticated and technical in terms of operational nature. Although it is debatable, an in-house internal function tends weigh to be more effective than being outsourced.

KACL

Company does not have a board endorsed strategic plan and policy on performance evaluation. In addition to that, code of ethics for the board is yet be formed.

Audit committee has been formed since last year, but no meetings have been held to this date. The company is in the process of recruiting an Internal Auditor. Therefore, it was informed that appointed CIA should have the minimum requirement of CIA.

MACL

The company complies with the corporate governance code on most areas. The company has developed a policy on board evaluation in late 2020, the evaluation has not been conducted yet. As per Company Secretary, the evaluation is to be done by GNR committee and currently the committee is dissolved due to a departure of one committee member. Company informed that as soon as the GNR committee is formed, evaluation of board shall be conducted.

The company is also in the process of developing a separate risk management division. Recently MACL has hired a risk manager.

The position of CFO is vacant for more than 3 months and there is no active advertisement, hence we requested for the CV of head of finance but did not receive it.

MHCL

The company does not have a Chief Internal Auditor at present and the function consists of just one staff of manager level. Since he is taking the responsibilities of CIA, we have reviewed the CV and confirmed that he does not meet the minimum requirement. (lack senior level experience as per minimum requirement).

The company has followed most of the requirements of CG code, except for the register of the directors and interest which has been notified in the review meeting held.

MSCL

As per the company, outsourced internal audit party is managed by the finance team.

Sports Corporation has complied with all the requirements of CG Code except formulating a risk management system, which is now covered in the risk based internal audits.

The position of CFO is vacant for more than 3 months and there is no active advertisement, hence we reviewed CV of head of finance and noticed that finance manager does not meet the minimum requirement of CFO (lack qualification and required experience).

PSM

Internal audit department was formed in later 2020. CIA has been developing audit charter, however work of audit plan has not been started since there are several ongoing audits which were carried forward from previous year. These audits were assigned by management and audit committee which relates to 2017, 2018 and 2019.

PSM have not complied with most of the requirements of CG Code. The board has not yet developed a policy on board evaluation. As per the company, code of ethics of board and board annual plan has been developed and are sent for board approval. . Currently the position of CFO is vacant and there is an acting head of finance. Hence, we have checked CV and confirmed that the person does not meet the minimum requirement of CFO. Company was advised to meet the deadlines on sharing periodic reports to PCB.

WAMCO

Company has not formed strategic plan and does not practice monitoring non-financial Key Performance Indicators (KPIs). Further, company does not have a risk management policy in order to assess and mitigate business and other potential risks. No board meetings were held since the first quarter of 2021 due to conflicts within the board. Internal audit plan of 2021 not yet approved by the board. Although audit plan was not approved by board, audit committee Chair has instructed CIA to conduct audits as per the draft plan. Therefore, the internal audit department is working according to the plan and completed reports are being shared with audit committee. However, CIA is facing challenges to perform his duties due to difficulties in accessing the information and documents.

We noticed that Chief internal Auditor is not allowed to participate in any senior management level work or meetings. And internal audit does not get to review any drafted policies/SOPs while we were informed that audit charter was amended by the audit committee without any consulting CIA. Furthermore, it was identified that the recommendations given in the internal audit reports are not taken seriously by the management.

FDC

Audit committee consist of 3 members from finance and legal background. Company is following audit charter approved in 2019. Internal auditor got ill and started leave from June 2020 and continued leave until she resigned on December 2021. As a result, internal audit function stopped until Company outsourced this function to a third party and internal audits have now resumed. Risk is managed only through risk-based audits carried out by internal audit function. No risk manager or risk management policy exists in the business.

MMPRC

Company's chairman seat is vacant and are still working on company's strategic plan. Audit committee comprises of well experienced members in private sector however lack educational qualification and financial & accounting experience. There is no risk management policy formulated in the company.

Some of the other CG code checklist requirement have not been formulated by the company which includes, register of directors, register of interest, policy on performance evaluation, Board's annual plan and code of ethics.

Internal audit function is outsourced, and CFO post is still vacant for more than a year after the minimum requirement of CFO has been circulated with SOEs.

AIA

Non-financial KPIs are not set by the company, there is a business plan but is in the process of revision. Performance evaluation of board conducted and to be shared with PCB in the coming week. Company raised concern on lacking one board member.

Company raised the concern over not having a qualified member in the audit committee. Internal audit function and risk management policy has not been formulated which are essential function to ensure a good check and balance system. Some of the CG code requirements are not formed namely, register of interest, result of performance evaluation of board.

MWSC

It has taken a substantial amount of time to hire a competent CFO to the company, and when was informed that the process of hiring a CFO is in the ongoing. A qualified CIA has been hired recently who meets the minimum requirement set by MoF.

Except for board's evaluation and annual plan, other CG code requirements have been implemented by the company.

There is no risk management policy applicable for the company, however plans to formulate one within next 6 months. However, the company have emergency preparedness and response procedures. Internal audit department is working to establish an audit manual for the first time in MSWC and plans the enhance the capacity of internal audit team.

MITDC

Company does not use non-financial Key performance Indicators (KPIs) which could measure areas such as governance, quality management etc. Performance evaluation of the board has not been conducted for the year 2020. Other CG code requirements have been formulated by the company; internal audit function outsourced and employs a qualified CFO.

POST Ltd

The head of finance department is Chief Accountant who takes the responsibilities of CFO. As such, fit and proper was performed and confirm that the person does not meet minimum requirements of CFO (lack required experience). The post of CIA has been vacant. Most of the CG code requirements have not formulated (refer table 3). Company does not have a risk management policy and board's performance has not been evaluated for the year 2020.

MPL (Ports Ltd)

According to Company, a CIA is hired as per the minimum requirement set by MoF and will commence work on mid-September 2021. The current head of internal audit department explained few limitations facing now. As such, difficulty in managing their work station, especially if a new member is hired, while Covid-19 made some of the field works impossible to be performed. Audit committee lacks a member from finance/audit background. As a result, reporting to them tends to be difficult as per the head of internal audit.

The board's performance evaluation has not been carried for 2020. Company has a draft strategic plan but not endorsed by the board.

SDFC

Company's board composition lacks one Non-executive member who was previously the audit committee chair.

Both post of CIA and CFO is vacant in the company, which needs to be remedied as soon as possible. However, as the post of CFO has been vacant since the company is formed. Fit and proper was performed for the person responsible for finance department and confirmed that he meets the minimum requirement of CFO. However, acting head of internal audit does not meet the minimum requirement of CIA.

Company is working behind the schedule for formulating CG code requirements namely policy on performance evaluation, board's annual plan and code of ethics.

STELCO

Company has a draft strategic plan which is not endorsed by the board. Company does not have finance or audit background members in audit committee and there is no risk management policy within the company however plans to formulate one within next 6 months. The acting CIA who was appointed by the board (until a qualified CIA is hired) carries out the responsibility of overall managing internal audit function, and this has been the case over a year now. The acting CIA does not meet the minimum requirement of CIA and has been advised to meet this requirement as soon as possible. Considering the complexity and size of business operation, not having a competent CIA will increase its overall business risk as a proper check and balance system is not functioned.

RDC

CIA has been recently hired and is currently working to build an internal audit team. Company has not formulated code of ethics as instructed in the CG code, while notified us that will complete and share the code as soon as possible. Addition to that, there is no risk management policy in the company.

MFMC

Company does not have a strategic plan endorsed by the board and does not set non-financial Key Performance Indicators. Policy on performance evaluation is yet to be formulated.

The audit committee comprises members from executive and management, which is not in-compliance with CG code. During the meeting, it was advised to change the committee composition as per CG code. Both audit charter and risk management policy is yet to be formulated. Company's internal audit has been outsourced. Position of CFO is vacant and therefore fit and proper was assessed for the head of finance. And it was identified that person does not meet the minimum requirements of CFO (lack required experience).

Other CG code requirements such as register of directors, register of interests, code of ethics and board's annual plan have not been formulated. It was advised to speed up this process.

TradeNet

The post of CIA is vacant in the company while CFO meets the minimum requirement set by MoF. Company has not formulated any CG code requirement and the importance of complying with CG code is highlighted during the meeting held with company secretary. Company does not have a risk management policy either.

Advised to bring the non-compliance issue to the board's attention and speed up the process of formulating policies and procedures.

Aasandha

It is identified that company's audit committee lacks a person from finance or audit background, which is important to effectively monitor company's internal audit function. Strategic plan is yet to be formulated along with the audit charter and company has not established a risk management system. In addition to that, some of the minimum requirements of CG code such as register of interest, policy on performance and code of ethics are yet to be formulated.

Conclusion

Compared to the review conducted in 2020, companies have worked to improve various aspects of corporate governance. Nonetheless, based on the review conducted as at August 2021, it is understood that major governance related works are yet to be completed by many companies. For instance, internal audit function has not been established in many companies, while others are in the process of outsourcing or establishing an in-house internal audit function. Similarly, few companies do not have effective function of an audit committee, thus does not manage over all business risks.

The agreed deadline to formulate the main corporate governance requirements (code of ethics, policy on performance evaluation etc.) was January 2020. To this date there are few companies who have not formulated any of the required policies, and three companies have formulated all the requirements.

Half of the companies have formulated a board approved strategic plan (58% of companies). If companies fail to formulate the goals, tactics and plans to achieve those, they may lose valuable lead time and momentum to combat them when they do occur. Therefore, we recommended

to these companies to formulate strategic plans in order to define the direction of the company and to have a practical and effective plan to achieve the desired objectives.

During the meetings held with companies, we emphasized on the importance of periodical financial reporting, especially compliance level of the format for quarterly reports and minimum requirement of the content highlighted in CG code for the annual reports.

Minimum requirement of CIA and CFO have been endorsed by most of the companies. Although most of the companies have opted for the 2 year period granted to reach to the level of requirement, some companies require hiring new CIA and CFO to meet the minimum requirement of both education and experience. Hence, it was understood that many companies are left without hiring competent CIA and CFO which is very worrying.

The level of compliance to the corporate governance tends to impact the overall internal control system of any company. The lower level of compliance with the governance indicates a higher business risk. This can be evident from the repetitive external audit issues over the past years in some companies.