

**CODE OF CORPORATE GOVERNANCE**  
**FOR**  
**STATE OWNED ENTERPRISES**



**PRIVATIZATION AND CORPORATIZATION BOARD**

**MINISTRY OF FINANCE**

# PRIVATIZATION AND CORPORATIZATION BOARD

## MINISTRY OF FINANCE

### MALDIVES

1<sup>st</sup> May 2019

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## ACCRONYMS AND SYNONYMS

<b>AoA</b>	Articles of Association
<b>AGM</b>	Annual General Meeting
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>EGM</b>	Extraordinary General Meeting
<b>MD</b>	Managing Director
<b>MoA</b>	Memorandum of Association
<b>PCB</b>	Privatization and Corporatization Board
<b>SOE</b>	State Owned Enterprises

# CHAPTER 1: INTRODUCTION

## What is Corporate Governance?

Corporate governance ensures that companies operate efficiently, transparently and in an accountable manner. It provides guidance on how the objectives of the Company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

There is no universal definition of corporate governance. One of the simplest and most effective definitions can be found in the Cadbury Report 1992. Here, corporate governance is defined as *“Corporate Governance is the system by which companies are directed and controlled”*.

According to the OECD Principles of Corporate Governance, the global recognised standards for corporate governance, *“Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company’s management, its Board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”*. Further *“Good corporate governance should provide proper incentives for the Board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.”*

Good corporate governance allows companies to increase their competitiveness, economic efficiency and growth, to attract the capital required for economic growth and reduce the cost of such capital, improve operational decision-making and the Company’s reputation, as well as to promote protection of and cooperation with stakeholders who have a legitimate interest in Company’s performance.

## Why Corporate Governance?

SOEs are major players in the Maldivian context. In the Maldives, SOEs are the main providers of key public services, including public utilities. Hence, SOEs form one of the largest sectors of the economy in the Maldives and are important contributors to national development. On a regional level, SOEs are key players in large cross-border infrastructure projects, which are crucial to realising regional integration goals and to achieving what is considered to be an important development objective. This means that their operations have an impact on citizens’ everyday life and on the competitiveness of the rest of the economy. SOEs are increasingly

prominent actors in international markets. Ensuring that they operate in a sound competitive and regulatory environment is crucial for maintaining an open trade and investment environment that underpins economic growth.

SOEs are different from private sector corporations in a number of important ways. They are a means by which government delivers on some of their social programmes, which means that often SOEs will have social objectives as well as economic ones. Members on the Boards of SOEs also tend to change at a greater frequency than Board members on private sector corporations, which means there is a question of continuity. Also, and most importantly, the relationship between the Board of the SOE and its 'parent' Ministry has to be managed.

In a world of growing inter-dependence and changing technology, SOEs need to "re-engineer" to maintain a high level of operational efficiency consistent with their mandate.

### **The Purpose of the Corporate Governance Code for SOEs**

The aim of this Corporate Governance Code (Code) is to ensure SOEs operate efficiently and improve the performance of SOEs through greater accountability and transparency, improved Boardroom practices, internal controls, internal audit and risk management. The Code also addresses additional issues peculiar to the corporate governance of SOEs: specifically, the need for the Government to improve the ways in which it exercises ownership and governance functions over SOEs.

The Code embodies the internationally agreed standard of corporate governance principles to encourage companies to create value through entrepreneurship, innovation and development and ensure implementation of effective control systems commensurate with the risks involved.

The Corporate Governance principles are built on four core values:

- **Fairness:** The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redressal for violations of their rights.
- **Responsibility:** The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

- **Transparency:** The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the Company, including its financial situation, performance, ownership, and governance structure.
- **Accountability:** The corporate governance framework should ensure the strategic guidance of the Company, the effective monitoring of management by the Board, and the Board's accountability to the Company and shareholders.

### **Nature of the Code's provisions; Comply or Explain**

The Code is developed to suit the specific needs of SOEs of the Maldives. The Code sets forth recommendations with respect to corporate governance best practices on issues which are not required in legislation or are not regulated at all.

SOEs in case of implementation of this Code, are required to prepare an annual Corporate Governance Statement (CG Statement) and attach it to their Annual Report. In the CG Statement, companies are required to clearly state whether they comply with the Code's recommendations or explain why they have not followed a particular recommendation.

If there is a conflict between this Code and any other legislation which is specific for that SOE, then priority must be given to that legislation.

The Companies' responsibility to annually report on their level of compliance with the Code on a "Comply or Explain" basis, is implemented through the publication of Annual Reports in the web sites of the Companies.

### **Relationship between the legal rules and the Code**

The purpose of the Code is not to replace existing laws or regulations, but to set standards of corporate governance in line with international best practice, taking into account the Maldivian practices and framework. The Code may be revised upon necessity.

### **Applicability and Effective Date of the Code**

The Code applies to all SOEs, regardless of the nature of their business with an exception to the SOEs listed in the Maldives Stock Exchange. The Code came into effect on the 1<sup>st</sup> day of May 2019 and all the SOEs must comply with the Code from the date it becomes effective.

## Key Definitions of the Code

<b>Banks</b>	means a person holding a license or permit under Law No. 24/2010 (Maldives Banking Act) to engage in the banking business, all or one or part of banking activities listed in section 25 of Maldives Banking Act.
<b>Board</b>	This refers to the Board of Directors or Supervisory Board, a governing body of the Company appointed under Law No 10/96 (The Companies Act) or any other relevant law of the Maldives.
<b>Company or Companies</b>	Under this Code, Company or Companies means state owned enterprises and state owned banks, insurance companies and investment funds with the status of legal entity, to whom the Code applies.
<b>Fit and Proper</b>	<p>1) A person who is 'fit and proper' should be financially solvent, should have integrity, good reputation and professional competence and face no conflict of interest.</p> <p>2) The Board shall, in assessing a person's fitness and properness, take into consideration the following:</p> <ul style="list-style-type: none"><li>i. Financial status or solvency</li><li>ii. Reputation, character and integrity</li><li>iii. Education or other qualifications, or experience, having regard to the nature of the functions to be performed or the diverse experience and expertise needed to suit the specific requirements of the Company.</li></ul>
<b>Independent Directors</b>	<p>are persons who are appointed to the Board and (the relationships set out below are not intended to be exhaustive):</p> <p>1) Have not held, or whose immediate family members have not held, during the last one year, a key position in the Company, such as CEO, General Manager, or any immediate employment position; or</p>



- 2) Have not or their immediate family members have not, during the last 1 (one) year had any substantial financial dealings, including the receipt of remuneration, commissions, professional fees, payment for goods and services etc. with the Company.

**Non-Executive Directors**

are persons who are appointed to the Board and who are not currently employed by the Company.

**Related party**

For the purposes of this Code, related party means a person who is related to another person in accordance with any of the following provisions:

a) Natural persons are related if, (i) one is the spouse of the other; (ii) the relationship between them is that of parent and child, brothers and sisters (including half brothers and sisters); (iii) they are partners in a partnership to which the Partnership Act of Maldives applies.

b) Companies are related parties if they are associated bodies corporate in which greater than 5% of the shareholding is owned/controlled by the other Company.

c) A natural person and a Company are associated persons if, (i) the natural person directly or indirectly holds or can control greater than 5% shareholding of the Company; (ii) the natural person is a director of the Company or of another Company that is associated to the body corporate.

**Senior Management**

means personnel of the Company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the functional directors, including all functional heads.

**Stakeholder**

means a party that has interest in the operations and results of the Company. The term “stakeholder” encompasses a number of parties who are interested in

the success and the mode of operation of a Company. It includes its employees, customers, members of the local community who are keen to ensure that their environment is not polluted; local government and self-government bodies; local businesses that sell goods and services to the Company; and the businesses which the Company does business with, both suppliers and distributors; and, of course, creditors and debtors.

**State Owned Enterprises**

is a Company where the State owns 50% or more of the shares. Also, by virtue of the distribution/ dispersion of shareholding or by contract concluded between the shareholders are controlled by the State. For avoidance of doubt, publicly listed companies shall not fall within the definition of State Owned Enterprises for the purpose of applicability of this Code.

**Subsidiary**

A business Company is a subsidiary business Company if another (or principal) business Company or partnership by virtue of dominant participation in its equity capital or in accordance with a contract concluded between them has the possibility of determining decisions taken by such a Company.

## **CHAPTER 2: THE BOARD**

All the SOEs must be headed by a well-functioning effective Board that manage and control the Company and are responsible to the shareholders for the long-term success of the Company as the Board is the link between shareholders and the Company.

The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board should set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance. The Board should set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met. All directors must act in what they consider to be the best interests of the Company, consistent with their statutory duties. All directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively and add value to the Board.

The chairperson is responsible for leadership of the Board. He or she should ensure that adequate time is available for discussion of all agenda items, in particular strategic issues. The chairperson should promote a culture of openness and debate by facilitating the effective contribution of directors. The chairperson is responsible for ensuring that the directors receive accurate, timely and clear information and for ensuring effective communication with shareholders.

### **1. Composition of the Board**

- (1) The size and composition of the Board should be adequate to ensure effective corporate governance, necessary pluralism, productive and constructive discussions, prompt and rational decisions and effective organisation of the work of its committees.
- (2) Crucially, all members of the Board should be individuals of integrity who [can] bring a blend of knowledge, expertise, skills, objectivity, experience and commitment to the Board.
- (3) All board members, including any public officials, should be nominated based on qualifications and have equivalent legal responsibilities.
- (4) Non-Executive Board members should comprise at least one-half of the Board, and preferably the majority of them being Independent Directors.
- (5) The Board should have an appropriate balance of Executive, Non-Executive and independent directors to ensure unbiased and diverse advice is brought to the

Company. Also, to ensure that no individual or small group of individuals can dominate the Board's decision-making.

- (6) Non-Executive Board members should comprise at least one-half of the Board, and preferably the majority of them being Independent Directors.
- (7) The Board of Directors' duties and responsibilities in running the Board on one hand, and in running the SOE's business on the other hand, should best be met by keeping the roles of the Board's Chairperson and the CEO separate, and by achieving a balance of power and authority within the Board so that no one individual has unfettered powers of decision-making or influence.
- (8) It is essential that the Chairperson of the Board to be a Non-Executive Director or Independent Director to ensure satisfactory performance within a framework of good governance to serve the interests of all the stakeholders of the Company.
- (9) All Boards should have Managing Director/CEO as a Board Director.
- (10) The Chairperson and the Managing Director/CEO of the Company must be two separate persons as a corner stone of good governance and to ensure an appropriate balance of power and increased accountability.
- (11) All boards should ensure that no elected officer serve on the board and that non-executive members have the necessary commercial and financial experience to serve the Board.

## **2. Nomination of New/ Re-election of Existing Board Members**

- (1) The Board of SOEs will be appointed as per the Policy passed by the Privatization and Corporatization Board (PCB) under S12 of the Privatization and Corporatization of State Businesses and their Monitoring and Evaluation Act (Act No. 3/2013).

## **3. Role of the Chairperson of the Board**

- (1) The Chairperson of the Board should be Non-Executive, preferably an Independent Director.
- (2) The Chairperson of the Board should lead the Board to ensure its effectiveness on all aspects of its role and should have specific responsibilities to include:
  - (a) setting the agenda for Board meetings;
  - (b) ensuring that the Directors of the Board receive accurate, timely and clear information to enable them to reach informed decisions;
  - (c) encouraging constructive relations between the Board and Management;

- (d) facilitating the effective contribution of Non-Executive directors in particular, during and outside Board meetings;
  - (e) encouraging constructive relations between Executive Directors and Non-Executive Directors;
  - (f) maintaining sound relations with the Company's shareholders and ensuring that the principles of effective communication and pertinent disclosure are followed;
  - (g) when necessary, in co-ordination with other board members, act as the primary point of contact between the enterprise and the ownership entity.
  - (h) representing the Board in AGM and other communications with shareholders and stakeholders;
  - (i) overseeing the agenda for general shareholders' meetings;
  - (j) ensuring that new directors receive a full, formal and tailored induction on joining the Board and that all directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board committees;
  - (k) assessing and where necessary, implementing training programmes for directors;
  - (l) ensuring that monitoring and evaluation of Board and director appraisals are carried out and reported to PCB annually;
  - (m) promoting high standards of corporate governance, overseeing compliance by the Company with this Code and signing the Corporate Governance Statement to be attached to the Company's Annual Report; and
  - (n) overseeing the compliance by the Company with the relevant laws and regulations.
- (3) Meetings of the Board and of Board committees should be scheduled in advance by the chairperson to enable directors to attend each meeting.
- (4) The chairperson of the Board should ensure that issues discussed at the Board committees are reported to the Board and any committee recommendations are considered for approval by the Board. For this purpose, the chairperson of the Board should give the floor to the chairperson of each Board's committee for a short presentation.
- (5) The Chairperson of the Board should not unilaterally issue policies without consulting with the Board as a whole with full frank and discussions being completed.
- (6) The Chairperson of the Board should not interfere with the day to day operations of the Company.

#### **4. Role of the Chief Executive Officer (CEO) / Managing Director (MD)**

- (1) The title, function and role of the CEO/MD must be separate from that of the Chairperson.
- (2) Important functions that the CEO/MD should fulfil are to:
  - (a) develop and recommend to the Board a long-term vision and strategy for the Company that will generate satisfactory levels of shareholder value and positive, reciprocal relations with relevant stakeholders;
  - (b) develop and recommend to the Board annual business plans and budgets that support the Company's long-term strategy. In the development of these plans, it is essential that the CEO/MD ensures a proper assessment of the risks under a variety of possible or likely scenarios is undertaken and presented to the Board (whether through a separately constituted Board Risk Committee or through an Executive Risk Management Committee);
  - (c) strive consistently to achieve the Company's financial and operating goals and objectives, and ensure that the day-to-day business affairs of the Company are appropriately managed and monitored; and
  - (d) serve as the chief spokesperson for the Company on all operational and day to day matters. The Chairperson and CEO/MD should discuss and agree with the Board the division of responsibilities for communication to shareholders and other stakeholders. It is important that the CEO/MD and other key officers attend AGM and be prepared to present material operational developments to the meeting.
- (3) The CEO/MD should maintain a positive and ethical work climate conducive to attracting, retaining and motivating a diverse group of top-quality employees at all levels of the Company. In addition, it is incumbent on the CEO/MD to foster a corporate culture that promotes ethical practices, rejects corrupt practices, offers equal opportunities, encourages individual integrity, and meets social responsibility objectives and imperatives.
- (4) The CEO/MD should be responsible for implementation of Board policies and should inform the Board on the progress in implementing the policies.

#### **5. Role of the Independent and Non-Executive Directors**

- (1) Independent and Non-Executive Directors of the Board should explicitly assume fully the responsibilities of the stewardship of the Company on behalf of the Government,

other shareholders and the public. It has two principle functions in its stewardship of the Company; to lead the Company and to oversee the management and operations of the Company.

- (2) The Independent and Non-Executive Directors must meet at least once a year (informally) without the presence of Management and Executive Directors.
- (3) The Independent and Non-Executive Directors must exercise the utmost good faith, honesty and integrity in all their dealings with or on behalf of the Company and must act independently of any outside fetter or instruction.
- (4) Independent and Non-Executive Directors of the Board have a statutory duty of loyalty to the SOE devoid of conflict of interest. They are legally accountable for breach of their duties. Their responsibilities include:
  - (a) a fiduciary duty to perform their duties in good faith and in a manner that they believe to be in the best interests of the Company, shareholders, other stakeholders and the public, and to exercise the degree of skill and care that may be reasonably expected of a person of his/her knowledge or experience;
  - (b) all board members have the legal obligation to act in the best interest of the enterprise and to treat all shareholders equitably. The collective and individual liability of board members should be clearly stated. There should not be any difference between the liabilities of different board members, whether they are nominated by the state or any other shareholders or stakeholders
  - (c) a fiduciary duty of loyalty to the SOE avoiding any conflict of interest, and acting in a manner which is not reckless or grossly negligent; and;
  - (d) a fiduciary duty to ensure that the Company and its officers and staff comply with the law and all relevant Statutes and Regulations (including the Accounting and Audits Standards).
- (5) Review all relevant Board papers to acquire a thorough understanding of the Company's business and Management's performance.
- (6) Constructively challenge the Company's business directions and Management's performance.
- (7) Non-Executive and Independent Directors should be judicious in the number of directorships they accept, in order to ensure that they do full justice to their onerous and demanding responsibilities as Board members.
- (8) Develop proposals on the long-term strategy of the Company.
- (9) Formulate or approve, monitor and review corporate strategy, within the framework of the overall corporate objectives.
- (10) Review the performance of Management in meeting agreed goals and objectives and monitor the reporting performance.

## 6. Role and Duties of the Board as a Whole

- (1) The Board must always act in the best interest of the Company and shareholders as a whole.
- (2) The division of responsibility between Chairperson and Managing Director/CEO must be clearly established and set out in writing by the Board.
- (3) Functional Role Clarity between Board of Directors and Management: A clear definition of the roles and the division of responsibilities between the Board and the Management is necessary to enable the Board to effectively perform its role. The Board should have a formal statement of Board Charter/Code of ethics which clearly defines the roles and responsibilities of the Board and individual Directors.
- (4) The Board should commit themselves effectively to their responsibilities.
- (5) The Board should ensure they have sufficient time to attend and contribute to Board meetings.
- (6) The Board must define its roles and responsibilities. In addition to the responsibilities provided by Companies Act and other relevant laws, the Board of Directors should be responsible for:
  - (a) ensuring a formal and transparent nomination process for directors;
  - (b) determining Company's purpose, strategy and values;
  - (c) monitoring the effectiveness of the governance practices under which the Company operates and propose changes where needed;
  - (d) overseeing the process of disclosures and communications to shareholders and stakeholders;
  - (e) setting the Company's values and standards, ensuring that obligations to shareholders and stakeholders are understood and met;
  - (f) adopting internal procedures and regulations for the conduct of Company's affairs;
  - (g) ensuring that appropriate systems of internal control are in place, in particular, systems for monitoring risk, financial and accounting control;
  - (h) overseeing compliance with relevant laws and regulations, this Code and the Company's by-laws;
  - (i) periodically reviewing compliance reports of all laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances;



- (j) setting performance objectives and evaluating the performance for the Company and management and approving the management remuneration connected with corporate performance. The evaluation is undertaken according to a policy and procedures approved by the Board;
  - (k) establishing technology and information systems sufficient to operate the Company efficiently and effectively;
  - (l) establishing corporate and fiscal policies and ensuring the major investments needed to achieve Company's objectives and increase the value of the Company;
  - (m) monitoring the implementation and overall development of the corporate business strategy and corporate performance;
  - (n) ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit;
  - (o) identifying, monitoring and reporting regularly on the non-financial aspects relevant to the business of the Company;
  - (p) appointing and dismissal of CEO and management Board (if one is established), appointment and dismissal of management Board members and ensuring that succession is professionally planned in good time;
  - (q) appointing a Company Secretary and in so doing, satisfy itself that the appointee is fit and proper and has the requisite attributes, experience and qualification to properly discharge his/her duties; and
  - (r) determining the management's powers and responsibilities and monitoring their performance.
- (7) The Board should actively seek information it requires from management and other sources, and to verify its reliability, adequacy and accuracy and be provided by management with all relevant and timely information the Board needs to enable it to perform its functions effectively.
- (8) The Board should have access to the advice and services of the professional qualified Company Secretary who is responsible to the Board for advising the Board on compliance with Board and AGM procedures, the law and relevant rules and regulations, and for ensuring that reliable and relevant information is provided to the Board and the AGM in a timely manner.
- (9) To perform their oversight functions effectively, Board members must bring an independent judgement to bear on issues of corporate strategy, performance, use of resources, appointments and standards of conduct.

- (10) If authority to make decisions on certain Board matters is delegated by the Board to any Board Committee or to Management, such delegation should be disclosed.
- (11) Exercise leadership, SOE, intellectual honesty, integrity and judgment in directing the Company so as to achieve sustainable prosperity for the Company.
- (12) The Board must act in the best interests of the Company and shareholder.
- (13) As trustees of public assets, directors of SOEs have the added responsibility not only to safeguard public goods but also to ensure the long-term sustainability of their respective SOE.
- (14) The Board Directors should never permit a conflict of duties and interest and must disclose potential conflicts of interest to the Board at the earliest possible opportunity
- (15) The Board should ensure the integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of normal business practice and not as a separate task at set times.

## **7. Board Meetings**

- (1) The Board should have its annual plan which provides for a number of meetings to be held, tentative agenda items and the form these will be held (e.g., personal presence required or teleconference). The agenda of Board meetings should be sent to all directors at least 3 to 5 working days in advance of the meeting, together with any relevant documentation, so that directors may have time to familiarise themselves with the agenda issues and accompanying documentation. Directors should attend Board meetings in person.
- (2) Board meetings should be held pursuant to the Articles of Association of the Company. Further, the time gap between any two meetings should not be more than three months.

## **8. Training and Development of Directors**

- (1) The appropriate induction of directors contributes to ensuring that a Company maintains a well-informed and competent Board. It is vital therefore that a suitable induction program is in place which meets the specific needs of both the Company and the individual, and enables any new director to make the maximum contribution as quickly as possible. Although it is the responsibility of the chairperson to ensure the

relevance and quality of the program, the induction training itself should be delegated to the Company Secretary.

- (2) Newly appointed or elected Board Members should receive the necessary induction into his/her specific responsibilities, the SOE's strategic aims and corporate objectives, and the SOE's Corporate Governance, model code of business, managerial control systems and procedures.
- (3) New directors appointed to the Board should be familiarised with the Company's operations, business model of the Company including risk profile of the business of Company, senior management and its business environment. They must also be made aware of their fiduciary duties and responsibilities and of the Board's and chairperson's expectations.
- (4) The chairperson should ensure that new directors receive a full, formal and tailored induction on joining the Board. As part of this, directors should avail themselves of opportunities to meet major shareholders.
- (5) Directors should undertake the Directors Training Programme conducted by Capital Market Development Authority within six (6) months of appointment to the Board, if the Director has not participated one previous to the appointment to the Board.
- (6) The chairperson should ensure that the directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board committees. To function effectively, all directors need appropriate knowledge of the Company and access to its operations and staff.
- (7) An essential element of the induction process must be to help and advise the director to recognise situations of potential conflict of interest before they arise. The director must be consciously aware of the situations that can lead to conflicts of interest, in order to be in a position to point them out to the chairperson and Board at an early stage.

## **9. Code of Conduct**

- (1) The Board shall lay down a code of conduct for all Board members and senior management of the Company. The code of conduct shall be circulated and also posted on the website of the Company.
- (2) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the Company shall contain a declaration to this effect signed by its CEO/MD.

- (3) Guidelines and policies evolved by PCB and Ministry of Finance with respect to the structure, composition, selection, appointment and service conditions of Board of Directors and senior management personnel shall be strictly followed.
- (4) There shall be no extravagance in expenditure on the part of Board members and senior management personnel.

## **10. Conflicts of Interest**

- (1) Transactions between the Company and its Managers or Directors are sources of conflicts of interest.
- (2) The personal interests of a Director, or persons closely associated with the Director, must not take precedence over those of the Company and its Shareholders, including minority Shareholders.
- (3) A Director should make best efforts to avoid conflicts of interest or situations where others might reasonably perceive there to be a conflict of interest.
- (4) Full and timely disclosure (preferably in writing) of any conflict, or potential conflict, must be made known to the Board. In the case of banks, the regulator may set different disclosure provisions. The Board should develop a corporate code of conduct that specifically addresses conflicts of interest, particularly relating to Directors and Management, which should be regularly reviewed and updated as necessary.
- (5) Where an actual or potential conflict does arise, on declaring their interest and ensuring that it is entered on the Register of Interests of the Company, a Director can participate in the debate and/or indicate their vote on the matter, although such vote would not be counted. The Director must give careful consideration in such circumstances to the potential consequences it may have for the Board, Company and him.

## **11. Board's Evaluation**

- (1) Companies must have controls in place to promote their continued survival and profitability. As this is a function of the Board, it makes sense for the performance of the Board and directors to be included in the monitoring and evaluation process.
- (2) Effective and meaningful evaluation is only possible once the Board has determined its own functions identified the key roles and performance standards for Directors. Key roles for Executive, Non-Executive and Independent Directors would be different.

- (3) There should be an annual evaluation of the Board's performance. The responsibility for the organisation of the annual evaluation should vest in the Board's Chairperson. External or independent experts may be used for the Board's evaluation. The Board should develop a policy and procedures for the annual evaluation.
- (4) Companies should confirm in their Annual Report that the Board's evaluation has taken place.
- (5) Compliance of Laws to be reviewed: - The Board shall periodically review compliance reports of all laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances.
- (6) Directors should be assessed both individually, and collectively as a Board by the PCB from time to time.

## **12. Company Secretary**

- (1) Every Company shall have a Company Secretary. It is the duty of the Board of Directors to see that the person appointed as the Company Secretary is competent to discharge the functions of Secretary of the Company.
- (2) Company Secretary must be endorsed by the Board.
- (3) The Company Secretary is a full-time staff member, with impeccable reputation appointed by and accountable to the Board.
- (4) The Company Secretary should be subjected to a fit and proper test laid down in the Companies Regulation.
- (5) The Board determines the terms of references for the Company Secretary pursuant to the Companies Regulation and determines the remuneration of the Company Secretary.
- (6) The Responsibilities of the Company Secretary must include the responsibilities laid down in Section 12 of the Companies Regulation.
- (7) The Company Secretary is in charge of the following functions:
  - (a) facilitating the efficient administration of Board meetings including their planning, calling, conducting and record-keeping consistent with the law, the securities market's regulations and with the Company's articles and by-laws;
  - (b) ensuring that the conduct of the general meetings is consistent with the law, the PCB regulations and with the Company's articles and by-laws;
  - (a) supporting effective Board administration and serving as liaison between the Directors and Management;

- (b) providing the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the Company;
  - (c) assisting and advising the Chairperson of the Board and reporting to the Board on the Company's compliance with the corporate governance requirements, this Code and other internal corporate rules and policies, the Company charter and by-laws and any other relevant laws or regulations;
  - (d) assisting the Board in reporting the Company's compliance with this Code of Corporate Governance in the Annual Report and on the Company's web site;
  - (e) monitoring and arranging procedures for compliance with relevant regulatory and legal requirements, providing clarifications to the Board regarding the requirements of laws, this Code, rules of corporate conduct for the Company, charter and other legal acts, and introducing to newly elected Board members this Code and the legal acts regulating the Company's corporate governance and provides any clarifications requested by the Board;
  - (f) ensuring timely, accessible and accurate filing of corporate statutory records as required by the law (Board meeting minutes), PCB and by the Company's articles and by-laws; and
  - (g) the minutes of Board meetings shall be signed by the Company Secretary and the Company Secretary must ensure that the minutes are signed by the Board Directors present at the meeting.
- (8) The Company Secretary plays a key role in the application of corporate governance in a Company.
- (9) The Company Secretary is the focal point of contact with a Company for institutional and other shareholders.
- (10) The Company Secretary should ensure that the Company complies with its constitution and all relevant statutory and regulatory requirements, codes of conduct and rules established by the Board.
- (11) The Company Secretary must send the Board Meeting attendance to PCB quarterly.

## CHAPTER 3: BOARD COMMITTEES

As stated above, the Board is the focal point of the corporate governance system and is ultimately accountable and responsible for the performance and affairs of the Company. Delegating authority to Board committees or Management does not in any way discharge the Board from its duties and responsibilities. Board committees are a mechanism to assist the Board and its directors in discharging their duties through a more comprehensive evaluation of specific issues, followed by well-considered recommendations to the Board.

### 13. Board Committees

- (1) In establishing Board committees, the Board must determine their terms of reference, life span, role and function. The terms of reference for each committee should cover:
  - (a) objectives, purpose and activities;
  - (b) composition;
  - (c) delegated authorities including extent of power to make decisions and/or recommendations;
  - (d) tenure;
  - (e) reporting mechanism to the Board; and
  - (f) agreed procedure for seeking independent outside professional advice when necessary.
- (2) There should be transparency and full disclosure from the Board committees to the Board. However, time should not be wasted on repeating a committee's deliberations at Board level.
- (3) Board committees should, as far as possible, only comprise members of the Board. The Audit Committee should be able to take independent (outside) professional advice when necessary, at the SOE's expense, and have an agreed procedure for doing so. It may be necessary, where certain Board committees fulfil a specialised role, to co-opt specialists as permanent members of such committees after getting approval from but this should be the exception rather than the rule and they should comprise a minority on the committee. Such co-opted persons should contract not to disclose confidential information.
- (4) All companies should have, at a minimum, an audit committee
- (5) Board secretary should be present for each committee and minutes of each meeting should be recorded.

- (6) Minutes of each Board committee's meeting should be prepared, circulated, signed and archived, not later than the next committee's meeting.

#### **14. Board Committees' Operations**

- (1) All Board committees should function according to terms of references established by the Board and disclosed to shareholders. The terms of reference should include provisions regarding the quorum and voting procedures. The chairperson of each Board committee is in charge of reporting to the Board.
- (2) All Board committees have the right to:
- (a) request documents, reports, explanations, and other relevant information from the officers, senior management, and employees of the Company and its advisors;
  - (b) invite the Company's officers, senior management, employees, and advisors, to their meetings as observers to question them, and seek explanations and clarifications;
  - (c) utilise the services of outside consultants, experts, and advisers – committees need to have separate budgets;
  - (d) request special investigations as required, and utilise the services of independent experts in doing so; and
  - (e) perform any other duties as may be required by the Board within the scope of authority of the committee.
- (3) Board committees shall meet and report to the Board on a regular basis, but not less than once every three months. Board committees shall make such report to the Board as soon as feasible after every meeting. The Board committee meetings should precede the regular Board meeting.
- (4) Board committee's members shall:
- (a) participate in the activities and work of the committee in which they are a member, and attend all meetings;
  - (b) keep abreast of the sectors of the committee's specific competence;
  - (c) inform the Board of any changes in their independent status or any conflict of interest regarding decisions to be made by the committee; and
  - (d) annually review and evaluate the performance of the committee and report to the Board.



## 15. Audit Committee

- (1) The Board should have an Audit Committee empowered to oversee due diligence and control over the financial aspects of the Company's operations and performance.
- (2) The Chairperson of the Audit Committee should be an independent Board member.
- (3) The Board of Directors, the internal and external auditors, and the Management should provide the Audit Committee with all relevant and timely information that the Committee needs to enable to perform its functions effectively.
- (4) The audit committee reports to the Board, identifies any matters in respect of which it considers that action or improvement is needed, makes recommendations as to the steps to be taken and has the following exclusive tasks and responsibilities:
  - (a) to monitor the integrity of the financial statements of the Company and any announcements of the Company's financial performance, reviewing significant financial reporting judgments contained in them, review and recommend for Board and shareholders' approval quarterly and annual statements;
  - (b) to review the Company's internal control, internal audit, compliance and risk management systems;
  - (c) to oversee the activities of the internal auditors;
  - (d) to receive and discuss the external auditor- Auditor General's report including any issues and recommendations raised by the external auditor on internal control weaknesses; and
  - (e) where there is an increase in the Company's capital by contribution other than in cash, it is desirable to appoint independent experts to value.
- (5) **Composition**
  - (a) Board Audit Committee composition should be based on the size of the Board: If the board consists of seven (7) Directors, Audit Committee should have 3 members and if the Board consists of five (5) Directors, Audit Committee should have 2 members.
  - (b) The chairperson of the Board should not be a member of the Audit Committee.
  - (c) The CEO/MD should not be a member of the Audit Committee.
  - (d) As far as possible, the Audit committee should comprise of Non-Executive, Independent Directors.
  - (e) The Chairperson of the Audit Committee shall be an independent Non-Executive Director.
  - (f) The Chairperson of the Audit Committee should have substantial accounting or financial experience.

(6) It is desirable that the committee member whom the Board considers to have recent and relevant financial experience should have a professional qualification from one of the professional accountancy bodies. Experience of corporate financial matters is required. The availability of appropriate financial expertise will be particularly important where the Company's activities involve specialised financial activities. At least one member of the Committee must be qualified in accounting. For this purpose, a board member with a professional qualification recognised by the International Federation of Accountants (IFAC) is only considered as "qualified in accounting".

(7) **Terms of reference:**

The Audit Committee should focus on:

- (a) the functioning of the internal control system;
- (b) the functioning of the internal audit department;
- (c) the risk areas of the Company's operations to be covered in the scope of the internal and external audits;
- (d) the reliability and accuracy of the financial information provided by management to the Board and other users of financial information;
- (e) whether the Company should continue to use the services of the current internal auditors;
- (f) any accounting or auditing concerns identified as a result of the internal or external audits;
- (g) the Company's compliance with legal and regulatory requirements with regard to financial matters;
- (h) the financial information to be published by the Board. However, this does not limit the statutory power of the Auditor General to publish audited information, including audited financial statement, about the Company; and
- (i) Shareholders, on request, should be able to obtain a copy of the current terms of reference of the Audit Committee at the registered office of the Company.

## **16. Other Board Committees**

(1) Boards may establish other Board committees that are responsive and relevant to the nature of the Company's business depending on the size and nature of the business with the approval of PCB. It is the responsibility of the Board to consider the committees appropriate for its purposes. Other Board committees charged with specific tasks and responsibilities.

- (2) State Owned Banks' Boards may also establish strategic planning and investment committees charged with specific tasks and responsibilities.
- (3) Other Board committees may be comprised of a majority of Non-Executive Directors, where at least one is independent. Only directors should be members of Board committees.
- (4) Other Board committees should be chaired by independent directors.

## **CHAPTER 4: OWNERSHIP FUNCTIONS OF THE GOVERNMENT AND ITS RELATIONSHIP WITH THE SOEs**

### **17. The Government as Owner**

By this, it is meant that the Government should act as the owner. The Government should have an integrated, clear and a homogenous vision with regard to its ownership of SOEs. The state should act as an informed and active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness. The Government, furthermore, should ensure the adoption of good practices of corporate governance in a manner that is grounded in transparency, responsibility and accountability, including the ways in which the Boards of Directors of these Companies are formed. Because there are often overlaps between the Government acting as the owner and its actions within its given responsibilities as a Government, this results in its intervention in the Companies' businesses and in its restricting their decision making process, which should belong to the elected or appointed Board of Directors under the supervision of their respective general assemblies. Consequently, there is an urgent need to separate the role of the Government as the owner and its role as the regulator and administrator, whose principles of corporate governance are delineated below:

- (1) Within the framework of its role as the owner, the State should determine its objectives and priorities clearly. Not only should the objectives not be limited to making profits and avoiding price distortions, they should also take into account some social aspects.
- (2) The Government should build up a vision and adopt a balanced and stable policy that will familiarise the local community with the role of the Government as the owner as well as its objectives in an unambiguous manner.
- (3) The Government and SOEs should ensure that all shareholders are treated equitably. The Government's prime responsibilities include:
  - (a) being represented at the general shareholders meetings and exercising its vote;
  - (b) setting up reporting systems allowing regular monitoring and assessment of SOE performance;
  - (c) Setting and monitoring the implementation of broad mandates and objectives for SOEs, including financial targets, capital structure objectives and risk tolerance levels

- (d) developing a disclosure policy for SOEs that identifies what information should be publicly disclosed, the appropriate channels for disclosure, and mechanisms for ensuring quality of information.
  - (e) when permitted by the legal system and the government's level of ownership, maintaining continuous dialogue with external auditor, the Auditor General and specific state control organs; and
  - (f) ensuring that remuneration schemes for SOE Board members foster the long term interest of the Company and can attract and motivate qualified professionals.
- (4) Effective Corporate Governance in SOEs requires a clear delineation of the respective rights and responsibilities of the main constituent decision-making organs of the SOE.
  - (5) The Government bodies entrusted with the rights and responsibilities of ownership and supervision over a SOE have a fiduciary duty to exercise these rights and responsibilities in an accountable and transparent manner, in good faith and in the best interests of the SOE and the public.
  - (6) The objectives and role of the Minister of Finance and Treasury, responsible Minister and officials are to govern the SOE by ensuring that the Board of Directors and Management of the SOE achieve maximum returns and benefits for stakeholders and the public in line with Government policy and the SOE's Corporate Plans as agreed with the SOE's Board of Directors are adopted at the AGM.
  - (7) Once the SOE's Corporate Plans are approved at the AGM, the SOEs Board of Directors and Management should automatically enjoy full operational independence in implementing the SOE's Corporate Plans. No variations to the approved Corporate Plans may be made except through a Resolution at the AGM or EGM of the SOE.
  - (8) A statutory arms-length relationship between the Government on one hand, and the SOE's Board of Directors and Management on the other hand, should be instituted and safeguarded with a balance between the SOE's autonomy and its accountability to Government.
  - (9) PCB should institute a transparent and competitive procedure for the recruitment, and appointment of a balanced and professional Board of Directors comprising qualified and independent Non-Executive Directors.
  - (10) The Board of Directors and Senior Management of the SOE should enjoy operational independence in the exercise of their mandated rights and responsibilities, as specified in the SOE's Corporate Charter and enabling legislation, in their implementation of the approved Corporate Plans and management of the SOE.

- (11) The Ministry of Finance and PCB and officials should institute an effective system for reviewing the strategic objectives, Corporate Plan, the Annual Plan and Budget of the SOE to be recommended and implemented by the SOE's Board of Directors in accordance with the AoA and MoA of the Company.
- (12) PCB should institute a system of regular monitoring and reviewing the performance of the Board of Directors and the SOE. PCB should ensure that Annual Corporate and other Periodic Reports (e.g. half-yearly and quarterly reports), annual financial statements along with the audit report of the external auditor- the Auditor General- are submitted on a timely manner to them by the Board of Directors. These reports should be carefully reviewed and discussed at the Board of the SOE before they are approved by the AGM.

## **CHAPTER 5: COMPETENCES OF GENERAL SHAREHOLDER'S MEETING AND SHAREHOLDER'S RIGHTS**

The Shareholders (Government), as owners of the Company, have defined property and information rights. They are entitled to sell their shares and share the profits of the Company. In addition, they own a right to information about the Company, primarily by participation in general shareholder meetings and by voting.

SOEs must be governed and managed in a way which makes it easy for people to understand and evaluate their performance, its objectives and the way profits are used. The Government should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.

### **18. The Annual General Meeting**

- (1) SOEs must request to the Shareholders prior to the AGM/EGM for the appointment of proxy and details of proxy appointed five (5) working days before the AGM/EGM.
- (2) An Annual General Meeting (AGM) should be held by the SOEs with the officials of the Ministry of Finance and PCB. The AGM should review, debate and approve the reports and recommendations of the Board including other matters reserved for the AGM as specified in the SOE's AoA.
- (3) The AGM should be properly convened and conducted in line with best practice and the provisions contained in the SOE's AoA.
- (4) Ministry of Finance and PCB should be provided in a timely manner with the agenda and all relevant information (including Financial Statements, the Report of the Auditor General and the Annual Corporate Report) on issues to be discussed and decided at the AGM.
- (5) Key issues on the capital structure, organisation, strategy, control and performance of the SOE and other matters reserved for the AGM should be decided by the AGM. These issues should include:
  - (a) approval of the strategic objectives, Corporate Plan, the Annual Plan and Budget, the Annual Corporate and other Reports submitted by the Board of Directors and Board Committees, the audit reports submitted by the Auditor General;

- (b) the recommendations of the Board of Directors on declarations of dividend, the SOE's Resource Plan and employment and procurement policies;
  - (c) capitalisation, major borrowings, mergers and acquisition or sale of substantial part of SOE assets and other extraordinary material transactions affecting the valuation and financial performance of the SOE and the interests of the Government and the public;
  - (d) review of the SOE's legislated mandate and public policy objectives and the Board's recommendations to the Government on updating these to ensure its continued relevance; and
  - (e) adoption of the SOE's Articles of Association, Memorandum of Association and other governance instruments and their amendments.
- (6) There should be an open session of the AGM to allow the attendance of non-shareholding stakeholders as observers without decision-making or voting powers.

## **19. Notice and Agenda of the Annual General Meetings**

- (1) Persons having the right to attend the AGM should be given at least fourteen (14) days' notice of the AGM. The notice shall specify the objects, venue, date, agenda and time of the meeting. Other information and related documents of the AGM should be made available to those who have the right to attend the AGM at least on the website of the Company and, in case of request, should also be sent out to those who have the right to attend the AGM.
- (2) Auditor General and his representatives should be invited to the AGM in his/her capacity as external auditor of the Company.
- (3) The agenda of the AGM should include the draft text of the resolutions to be voted on.

## **20. Submitting and Asking Questions at the Annual General Meeting**

- (1) The Board should be required to reply to the shareholders' questions at the AGM.
- (2) Companies should provide shareholders the right to ask oral questions at an AGM and the Board should be required to provide answers to the questions posed. In the case of issues that cannot be answered during the AGM the response shall be sent to the shareholder in written form.



## **21. Dividend Policy**

Ministry of Finance /PCB should adopt a dividend policy, including a pay-out ratio, which should be submitted to the AGM for approval and published on the Company's web-site.

## **22. Other Matters**

SOEs must get approval from PCB for Company structure, taking out loans, making investments and before payment of bonuses and other performance related incentives and rewards to the Management and employees.

## CHAPTER 6: RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

### 23. Risk Management

- (1) The Board is responsible for the total process of risk management and should ensure that the Company develops and executes a comprehensive and robust system of risk management.
- (2) The process of risk management includes the systematic and continuous identification and evaluation of risks as they pertain to the organisation, followed by action to terminate, transfer, accept or mitigate each risk.
- (3) The Board is responsible for the definition of the overall strategy for risk tolerance, to monitor management and the assurance process on risk management and to take corrective action where and when deemed necessary.
- (4) The objective of risk management is not to completely eliminate risk but to reduce it to an acceptable level, having regards to the objective of the Company. Commercial SOE is the undertaking of risk for reward and where the Company accepts to tolerate risk, it should ensure that the risk is appropriately mitigated and commensurate with the measurable reward.
- (5) The Board must communicate its risk management policies to Management and all other employees as appropriate to their roles within the organisation and must satisfy itself that communication has been effective and understood.
- (6) Management is accountable to the Board for the design, implementation and detailed monitoring of the risk management processes.
- (7) Risk management should include the reporting, consideration and the taking of appropriate action on the risk exposure of the organisation in at least the following areas of risk: • physical • operational • human resources • technology • business continuity • financial • compliance • reputational.
- (8) In Companies exposed to significant risks, it may be appropriate that the Board constitutes a Board Risk Committee.
- (9) The role of the committee is to regularly advise the Board on the total process of risk management within the organisation and to support management in the continuous and ongoing management of risk.

## **24. Internal Control**

- (1) The Board is responsible for the system of internal control and must set appropriate policies to provide reasonable assurance that the control objectives are attained.
- (2) The Board must satisfy itself that the system of internal control is functioning effectively and that the system manages risk in the manner approved by the Board.
- (3) The boards of SOEs should develop, implement, monitor and communicate internal control system
- (4) The SOE boards should fulfil their role of evaluating management performance. This activity should cover the achievement of financial and operational results, as well as the success of implementing board strategy, establishing effective internal controls and risk environment, and ensuring the accuracy and integrity of financial statements.
- (5) The Board should also ensure that the SOEs have adequate internal controls and that effective internal and external audits are overseen by a capable audit committee.
- (6) Management is responsible for the design, implementation and monitoring of the internal control system.
- (7) The Board should also ensure that, as part of its internal control procedure, the Company has an effective mechanism in place which facilitates and encourages the reporting of any lack of, or breach of internal controls and any unethical or irregular behaviour concerning the Company.
- (8) Directors are responsible for adequate accounting records and maintenance of effective internal control systems.
- (9) Directors are responsible for the preparation of accounts which fairly present the state of affairs of the Company and the results of its operations and which comply with International Financial Reporting Standards (IFRS).
- (10) The Directors are responsible for selection of appropriate accounting policies supported by reasonable and prudent judgements.

## **25. Internal Audit**

- (1) Companies should set up an internal audit function to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. The internal audit helps the Company in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- (2) Internal audit function should be nominated by the Audit Committee and appointed by the Board.
- (3) SOEs should develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the board and to the audit committee or the equivalent corporate organ.
- (4) All SOEs should have internal auditors; and to ensure their objectivity and ability to provide key information to the board, they should report directly to the audit committee or if there is no audit committee, then directly to the board.
- (5) The authority, responsibilities and the position of internal audit should be detailed in an Internal Audit Charter and should be approved by the Chairperson of the audit committee. Such a charter, amongst others, should incorporate the provisions stated in this section of the Code.
- (6) Internal auditor should have the following functions:
  - (a) reviews adequacy of internal controls;
  - (b) reviews implementation of internal controls;
  - (c) periodically audits business operations;
  - (d) implements the annual work plan for internal audit with a fixed plan of activities but also allowing for appropriate investigation time for matters that emerge over the year;
  - (e) responds to matters that emerge from appropriate referring bodies (the Board of Directors, CEO and other senior management);
  - (f) assists the Board with establishing ethics policy and whistle blowing procedures;
  - (g) periodically reviews and recommends updates in corporate accounting policies and procedures framework;
  - (h) coordinates audit operations with activities of the External Auditor- the Auditor General; and
  - (i) ensures follow-up mechanism to determine if audit recommendations (both internal and external) are implemented within appropriate and agreed timetable.
- (7) Companies should have an effective internal audit function that has the respect, confidence and co-operation of both the Board and Management. Where the Board, at its discretion, decides not to establish an internal audit function, full reasons must be disclosed in the Company's annual report, with an explanation as to how assurance of effective internal controls, processes and systems are obtained without the function.

- (8) The external auditor- the Auditor General- or a one (a firm) who works on behalf of the Auditor General should not provide internal audit services to the Company.
- (9) The Board of a Company which does not have an internal audit function should review, at least annually, the need for one.
- (10) The Board may delegate the responsibility for managing the internal audit function and for receiving internal audit reports to the audit committee.
- (11) The internal audit function is responsible for providing assurance to the Board regarding the implementation, operation and effectiveness of internal control and risk management. It is not responsible for the implementation of controls or the management and mitigation of risk, responsibility for which remains with the Board and operational management.
- (12) The head of internal audit should have an appropriate professional qualification and experience in internal auditing. As such professional qualification of Institute of Internal Auditors (IIA) and IFAC- recognised professional accountancy qualifications are considered relevant qualifications. However, due to scarcity of professionally qualified internal auditors at the time this Code comes into effect SOEs should recruit a person for the post of head of internal audit with a reasonable academic qualification and experience. Nonetheless, completing an aforesaid professional qualification within a reasonable time should be made as a requirement for him/her to remain on their job.
- (13) Internal audit should report to a level within the Company that allows this vital function to fully accomplish its responsibilities. As such it should report to the audit committee at the Board all its reports, whilst administratively, it can report its findings to the CEO/MD for the purpose of implementing recommendations for improvements. The head of internal audit should have ready and regular access to the chairperson of the Company and the chairperson of the audit committee.
- (14) The internal audit function should be resourced properly. As such the audit committee should ensure deployment of sufficient and appropriate human resources in the function. Audit committee should also ensure appropriate training and development opportunities are provided to the internal audit staff annually. For this, annual training budget of internal audit once passed by the Audit Committee is considered final.
- (15) The appointment or dismissal of the head of the internal audit should only be done by the agreement of majority of members in the audit committee.
- (16) Companies should aspire to efficient audit processes using external auditors in combination with the internal audit function.

- (17) Management should encourage consultation between internal and external auditors. Co-ordination of efforts involves periodic meetings to discuss matters of mutual interest, the management letters and reports, and sharing common understanding of audit techniques, methods and terminology.
- (18) Auditors should observe the highest standards of business and professional ethics and in particular their independence should not be impaired in any way. . As such all the internal auditors in the Company or the internal audit team of the firm that provides internal audit service to the Company (in case any internal audit work is outsourced) should sign Code of Ethics for internal auditors published by Institute of Internal Auditors, Global.

## **26. External Auditor**

- (1) External Auditor is the Auditor General or any person or body appointed by the Auditor General.

## **27. Code of Ethics**

- (1) The Board should develop a code of ethics, with clear policies and procedures for Directors, Management and employees on issues such as: use of confidential information; corporate values; business behaviour; relationship with governments and officials; relationship with competitors; 'whistleblowing' arrangements; use and care of the Company's property; use of "insider" information; disclosure of potential conflicts of interest; handling of external gifts; observance of laws and regulations; working relations between employees; reporting of breaches of the code of ethics and protecting the confidentiality of such reporting; behaviour towards stakeholders.
- (2) The Company shall appoint an officer responsible for developing, implementing and communicating programmes of compliance with ethical standards.
- (3) Every Company should adopt a code of ethics which sets out clear corporate values and standards of behaviour in its dealings.
- (4) When adopting a code of ethics the Company should primarily address issues relating to ethical practices of relevance to the particular circumstances of its business environment, including the practical application of its corporate values and the concepts of honesty and integrity. The code should make clear what is acceptable and unacceptable practice and should be easily communicable to all stakeholders, especially the Company's officers and employees who will rely on it to guide them in their dealings.

- (5) The code of ethics should refer to the principles, norms and standards that the Company wants to promote and integrate within its corporate culture that determines the conduct of its activities, including internal relations, interaction and dealings with external stakeholders.
- (6) In the formulation of its code of ethics, a Company should consider the specific circumstances and identify risk areas within the particular industry in which it operates. Where necessary, reference should be made to relevant laws and regulations that apply to the Company's activities and services.
- (7) Companies should monitor and evaluate compliance with established ethical principles and standards on a regular basis. They should, when necessary, reconsider the nature of their relationship with stakeholders in terms of ethical consequences.
- (8) A Company should promote awareness, both internally and externally and emphasise the importance for the reputation of the Company of adherence to exemplary standards of conduct and ethical practice.

## **28. Code of Conduct**

- (1) The Board shall lay down a code of conduct for all Board members and senior management of the Company. The code of conduct shall be circulated and also posted on the website of the Company.
- (2) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the Company shall contain a declaration to this effect signed by its CEO/MD.
- (3) Guidelines and policies evolved by the PCB/Ministry of Finance with respect to the structure, composition, selection, appointment and service conditions of Boards of Directors and senior management personnel shall be strictly followed.
- (4) There shall be no extravagance in expenditure on the part of Board members and senior management personnel. SOEs Senior Management shall be accountable for their performance in conformity with established norms of conduct.
- (5) Any external/ internal changes made from time to time, due to addition of or amendment to laws/regulatory rules, applicable to SOEs, need to be dealt with carefully by the respective Boards/ senior management personnel.

## **CHAPTER 7: INTEGRATED SUSTAINABILITY REPORTING**

- (1) Every Company should recognise that it operates within a social and economic community, and should identify the particular circumstances, whether environmental or social, relevant to the Company's business. It is in the long-term economic interest of a Company to conduct itself as a "responsible corporate citizen", and to act in a manner which is non-exploitative, non-discriminatory and respectful of human rights. Failure to adopt such policies may well hinder its development and participation in an international context which is increasingly sensitive to sound corporate values, good practice and respect for the environment.
- (2) Every Company should regularly (at least annually) report to its stakeholders on its policies and practices as regards:
  - (a) ethics;
  - (b) environment;
  - (c) health and safety; and
  - (d) social issues;

### **29. Environment**

Economic activities can have a profound impact on the environment, especially in Maldives which is a small, densely populated, and geographically isolated island. Environmental issues are therefore vital to the economy in Maldives and companies must not only be aware of the importance of these issues but should also be actively involved in managing their activities so as to minimise any negative impact on the environment.

### **30. Health and Safety**

- (1) SOEs should develop and implement safety, health and environment policies and practices to at least comply with existing legislative and regulatory frameworks.
- (2) SOEs should undertake health and safety risk identification and assessments leading to sound risk management strategies within the Company's particular field of activity.



### **31. Social issues**

- (1) SOEs in Maldives play an important role in sustaining social harmony, especially through their employment policies and their ownership structure.
- (2) It is essential that SOEs practice and are seen to practice fair policies in recruitment and promotion. Procedures which are both transparent and based on merit should be adopted by them.

## CHAPTER 8. DISCLOSURE AND TRANSPARENCY

The OECD Principles recommend that “The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the Company.”

The cornerstone of a disclosure policy is the publication of a comprehensive Annual Report, including Annual Accounts with a report from independent external auditors – the Auditor General. Companies are also encouraged to make use of their website for disclosure of key corporate governance information.

Communicating on operational and day-to-day matters is a management task. However, Boards should consistently and transparently address the Shareholders and other Stakeholders on matters of material interest.

### 32. Reporting and Disclosure

- (1) The Board shall ensure that any report delivered as an annual report includes, or has appended to it, a statement which acknowledges the directors’ responsibilities for internal control and describes the methods by which this responsibility is discharged.
- (2) This “Statement of Directors’ Responsibilities” shall be signed by two or more Directors as representatives of the Board.
- (3) The disclosure of the methods used by the Board to discharge its responsibility for internal control must, as a minimum, include a description of the following:
  - (a) the systems and processes in place for implementing, maintaining and monitoring of the internal controls;
  - (b) the process by which the Board derives assurance that the internal control systems are effective;
  - (c) the existence or otherwise of an internal audit function, and for companies where no internal audit function exists, the frequency of reviews for the need to establish one and the date of the last such review;
  - (d) any significant enterprise areas not covered by the internal controls including joint ventures, subsidiaries or associates; and
  - (e) the process applied to any material problems disclosed in the annual report or financial statements.

- (4) It is the responsibility of the Board to make disclosure as regards risk management. The statement on the risk management processes shall, as a minimum, include the following:
- (a) the structures and process in place for the identification and management of risk;
  - (b) the methods by which internal control and risk management are integrated together;
  - (c) the methods by which the directors derive assurance that the risk management processes are in place and are effective; and
  - (d) a brief description of each of the key risks identified by the Company and the way in which each of these key risks is managed.
- (5) Where the Board cannot make any of the disclosures required above in relation to internal control or risk management, it must state this fact and provide a suitable explanation.

### **33. Annual Report**

- (1) Companies should prepare and present for shareholders' approval an Annual Report.
- (2) Annual reports should present a comprehensive and objective assessment of the activities of the Company so that all Stakeholders can obtain a full and fair view of its performance.
- (3) The Annual Report should include:
  - (a) financial reports prepared in accordance with IFRS; if there has been any departure in the interest of fair presentation, this must not only be disclosed and explained but quantified;
  - (b) information for the Company's Stakeholders, which enables them to assess the Company's contribution to securing economic stability, social welfare and environmental safety.
  - (c) external auditor's conclusion;
  - (d) list of the Company's Shareholders;
  - (e) reference to the Company's web site where the Company's code of ethics is posted;
  - (f) Corporate Governance Statement. The Statement shall evidence the Company's compliance with this Code of Corporate Governance. The

Statement shall also include the Company's report with detailed explanations in case of any deviance from this Code of Corporate Governance;

- (g) list of Company's related parties and list of related party transactions where the value of the transaction exceeds 2% of the Company's total assets. In particular, the Annual Report shall:
- Provide the definition of related parties; Describe the relationships between parents and subsidiaries;
  - Describe what proportion of the Company's transactions involve related parties;
  - Provide information regarding related party transactions separately for each category of related parties;
  - State fairness of the terms and conditions of a related party transaction; Specify the absence of related party transactions;
  - Describe the Company's policies and procedures for the review, approval, or ratification of any transaction required to be reported.
- (h) names and brief bios of Directors, including names of Directors considered independent, those resigning or removed during the year, together with the remuneration of all Directors who served during the year and records of their attendance at Board meetings;
- (i) name and remuneration of external auditors and disclosure of the results of the test of the auditor's independence;
- (j) description of the Company's structure, including subsidiaries, branches and parent Companies and cross-shareholdings with other group or affiliated Companies;
- (k) Directors' Report summarising the performance for the past year, risk factors, prospects for the coming year, Company strategy, major transactions during the year, any major changes in the business undertaken by the Company, explanations of major changes in financial performance in comparison with the preceding year, proposed allocation and distribution of profits, including proposed dividend;
- (l) compensation of Directors and Senior Management (including the CEO/MD and Chief Accountant/Chief Financial Officer); and
- (m) list of number and class and classes of shares issued and summary of rights for each class of shareholders.
- (4) Companies should send an Annual Report including the consolidated income statements and balance sheets of the Company signed by the Board Chairperson,

CEO and CFO to certify the fair and true presentation of the accounts to PCB and the Shareholders.

### **34. Corporate Governance Report**

There should be a separate corporate governance section in the annual report. The Corporate governance report must include how much the Company has complied with this code or if there is any deviation from the code, the Company must state the reason for the deviation and justify it.

### **35. Company's Web Site**

- (1) Companies should have a web site accessible to all stakeholders for the disclosures required in this Code of Corporate Governance. The web site should be updated regularly, to ensure that required disclosure of information is done so, in a timely manner. Documents and information posted on the web site should be available in Dhivehi and if possible in English also.
- (2) All documents to be discussed at the Annual General Meeting should be posted on the Company's web site and be available to the public by the end of the second quarter.
- (3) The Company's web site should include a section dedicated to corporate governance which is regularly updated. This section should include:
  - (a) the Company's Act, inclusive of all amendments in force and the AoA and MoA of the Company;
  - (b) terms of reference for all Directors;
  - (c) a profile of every Director, describing their educational qualification and experience;
  - (d) terms of reference for the Board(s), Board committees and corporate secretary;
  - (e) the Company's policy on annual evaluation of the Board;
  - (f) the minutes of the Annual General Meeting for the previous 5 years;
  - (g) the approved dividend policy;
  - (h) the Company's identified Stakeholders and its policies for dealing with those Stakeholders;
  - (i) The Corporate Governance Statements for the last 3 years;
  - (j) the Company's structure and cross-shareholdings; The Annual Reports for the past three years; and

- (k) at least (3) three basic financial statements Semi-annually or Quarterly.
- (4) The disclosure should include any areas of Owner's decision making over the SOE's operations that are not delegated to the Board and on whether the SOE is subject to any specific regulatory oversight and how this oversight is exercised.
- (5) The SOE website should include information on performance criteria to be followed by the Board and any relevant information for stakeholders.

### **36. Disclosure by the Government**

- (1) The identity of the Government entity exercising ownership of the SOE and the shareholding directly or indirectly belonging to the Government should be disclosed in the Annual Report and on the SOE web site.
- (2) The disclosure in the Annual Report of related party transactions should include disclosures of any financial assistance, received from the Government and commitments made on behalf of the SOE, any Government aid, subsidies or grants of which the SOE has been a recipient and any business relations that may exist between the SOE and other companies.
- (3) Loans to Directors, Shareholders, Senior Management, auditors, Company lawyers or any other person who has access to confidential information on the SOEs activities, should not be authorised. If there are any such loans, they should be clearly disclosed in the Annual Report.

### **37. Funding**

Charitable Donations: It is the responsibility of the Board to decide whether the Company should make any charitable donations. In the event of the Company making any such donations, the aggregate amount should be declared in the annual report.

## **CHAPTER 9: STAKEHOLDERS**

The OECD Principles state that “corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound SOEs”.

The competitiveness and ultimate success of a Company is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, and suppliers. Thus, it is best practice for the Boards to consider the implication of their decisions on the various Stakeholders as an integral part of the decision-making process.

### **38. Considering Stakeholders’ Interests**

- (1) The Board should take account of the legitimate interests and expectations of its stakeholders in its decision making in the best interests of the Company.
- (2) The state ownership policy should fully recognise the state-owned enterprise’s responsibilities towards stakeholders and request that they report on their relations with stakeholders.

### **39. Identification of Stakeholders**

The Board should ensure that the Company identifies the stakeholders that are relevant to its operations.

### **40. Policies and Procedures for dealing with Stakeholders**

- (1) The Board should define relevant policies and procedures on the handling of the Company’s relationships with its defined stakeholders. For example, this might include a policy for relations with suppliers that includes payment terms, or an environmental policy that includes the handling of waste.
- (2) The stakeholder policies and procedures including implementation report and applied standards should be disclosed on the Company’s web site.
- (3) The Board should annually disclose in the implementation report the nature of the Company’s dealings with stakeholders and the outcomes of these dealings.

#### **41. Access to Company's Information**

Stakeholders should have access to Company's Annual Reports, corporate governance and related documents via Company's website.

#### **42. Interaction with Company's Stakeholders**

- (1) The Company's reputation and its linkage with Stakeholder relationships should be a regular Board agenda item.
- (2) The Board should consider interaction with the Company's Stakeholders.