

All Secretaries to Ministries
Chairmen of Commercial Corporations, Statutory Boards
And Government Owned Companies

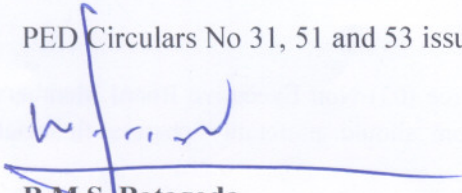
Strengthening the Audit Committees of Public Enterprises

It has been observed that the Audit Committees of Public Enterprises are not functioning effectively to fulfill its objectives. With a view to strengthen the Audit Committees to perform their functions in a professional manner, the responsibilities of an Audit Committee referred to in paragraph 7:4:1 of the Public Enterprises Guidelines for Good Governance dated 2nd June 2003 and the subsequent circulars have been revised with the following changes with immediate effect;

1. The Audit Committee should consist of at least three (03) Non Executive Board Members including a Treasury Representative one of whom should preferably possess financial management skills.
2. If there is no statutory provision in the relevant legislation for the appointment of Treasury Representative as a member of Board, a representative from the Treasury can be appointed as observer.
3. The Audit Committee should be chaired preferably by a Treasury Representative or a person possessing financial management skills.
4. The President of the Institute of Chartered Accountants (ICASL) has indicated his willingness to nominate senior members of the institute to serve as an consultant to the Audit Committees of large/strategic public enterprises on a voluntary basis, if the Board of Directors of the enterprise considers it appropriate.
5. A representative from the Auditor General' Department /External Auditors or any other person whose service is essential for the functioning of the Audit Committee could be invited to serve as an observer.
6. CEO, CFO, and other senior managers should also be made to attend Audit Committee meeting by invitation, as and when necessary.
7. While the Internal Auditor should assist the Audit Committee through the submission of relevant reports etc. to assist in the deliberations, the Board Secretary should function as the Secretary to the committee.
8. The Audit Committee is required to review the continuing impartiality of the internal auditors and their effectiveness.
9. The Audit Committee should also address relevant issues concerning the subsidiaries of the enterprise, if any, on a regular basis.
10. Terms of Reference of the Audit Committee should be issued by the Board of Directors.

11. The Audit Committee should assist the Board in the task of overseeing to ensure that financial reporting is done in compliance with relevant Sri Lanka Accounting Standards and other applicable legal requirements.
12. The Audit Committee should assist the board to ensure that all relevant rules and regulations and circulars issued by the government are complied with continuously reviewing and monitoring, making recommendations to the board on non compliance.
13. The Audit Committee should review the Internal/External Audit Reports, Management Letters and the recommendations of COPE, and help the board to take remedial actions.
14. The Audit Committee should assist the board to introduce and implement adequate internal control system.
15. The Audit Committee should meet at least once in three months and report its recommendations to the Board of Directors soon thereafter, along with the minutes of the meeting, to facilitate taking corrective measures.
16. Fees payable to the members of the Audit Committee and Observers could be on par with the amount that is paid to Non Executive Directors, who attend Board Meetings.

PED Circulars No 31, 51 and 53 issued in this regard are hereby withdrawn.



B.M.S. Batagoda
Director General

Copy : Auditor General