

**Corporate Governance Failures in Corporate Scandals**

**"The Case of Alpha Credit Card Company"**

By

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**MBA Program**

**Year 2014**

# **Corporate Governance Failures in Corporate Scandals**

## **“The Case of Alpha Credit Card Company”**

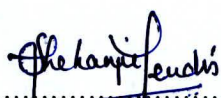
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A thesis submitted to the University of Sri Jayewardenepura in partial fulfillment of the requirements for the Degree of Master of Business Administration in Accounting on 24<sup>th</sup> June 2014.

## Declaration by the Author

“The work described in this thesis was carried out by me under the supervision of  
**Professor Samanthi Senaratne. Head, Department of Accounting, University of Sri  
Jayewardenepura Sri Lanka** and a report on this had not been submitted in whole or in  
part to any university or any other institution for another Degree”.

  
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04.08.2014  
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Date

## Declaration by the Supervisor

"I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the University for the purpose of evaluation".



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### **List of Abbreviations**

<b>AAS</b>	Australian Accounting Standards
<b>ACCCL</b>	Alpha Credit Card Company Limited
<b>AGM</b>	Annual General Meeting
<b>ASX</b>	Australian Securities Exchange
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CCA</b>	Committee of Chartered Accountants
<b>CCSA</b>	Credit Card Security Application
<b>COPE</b>	Committee of Public Enterprises
<b>COSO</b>	Committee of Sponsoring Organizations of Treadway Commission
<b>CPA</b>	Certified Public Accountant
<b>DIR</b>	Department of Inland Revenue
<b>e.g.</b>	Example
<b>E&amp;Y</b>	Ernst & Young
<b>FRS</b>	Financial Reporting Standards
<b>GL</b>	General Ledger
<b>HIH Insurance</b>	Heath International Holdings Insurance
<b>IAS</b>	International Accounting Standards
<b>IT</b>	Information Technology
<b>ICASL</b>	Institute of Chartered Accountants Sri Lanka
<b>IHI</b>	Ishikawajima-Harima Heavy Industries Company
<b>KPMG</b>	Klynveld Peat Marwick Goerdeler
<b>LDC's</b>	Least Developed Countries

<b>Mt. Lavinia</b>	Mount Lavinia
<b>NASDAQS</b>	National Association of Security Dealers Automated Quotation System
<b>OEDC</b>	Organization for Economic Development and Cooperation
<b>PPE</b>	Property Plant and Equipment
<b>Pvt</b>	Private
<b>PwC</b>	Pricewaterhouse Coopers
<b>Rs</b>	Sri Lanka Rupees
<b>SEBI</b>	Securities Exchange Board of India
<b>SIU Report</b>	Special Investigations Unit Report
<b>USD</b>	United States Dollar
<b>WHT</b>	With Holding Tax

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## ABSTRACT

Alpha Credit Card Company Limited ACCCL (not real name) an unauthorized fund collecting company which triggered misdeeds valued at Rs 26 billion was named Sri Lanka's largest accounting and tax fraud done by a white collar company during the year 2008. The subsequent examination by the Sri Lanka Attorney General's Department documented this fraud as being associated with many internal controls and accounting failures with deficiencies in discharge of duties of board of directors, auditors and regulatory failures. This signaled the symptoms that ACCCL suffered from a poorly designed corporate governance system. Based on this argument, the ground was laid to analyze this case as a thesis, how prevailing governance failures have contributed to the collapse of ACCCL. In this context, the study dealt with the following three research issues. 1. What was the corporate governance structure that prevailed at ACCCL? 2. To what level did ACCCL comply with corporate governance best practices? 3. How did corporate governance failures contribute to the failure of ACCCL?

Established on the three research issues, the objectives of the study are threefold. Namely, to examine the corporate governance structure that prevailed at ACCCL, to examine to what level did ACCCL corporate governance structure comply with the Corporate Governance Code of Best Practice and to examine how corporate governance failures identified through the first and second research objectives, contribute towards the failure of the company.

This study is a descriptive case study where the qualitative method of data collection was used. Data is described based on key themes. Empirics in the descriptive case study will be presented based on the internal and external governance actors associated with ownership and control structure and monitoring structure of the company identified by Melis



(2005b), the Sri Lanka Companies Act No. 07 of 2007, the Sri Lanka Corporate Governance Code of Best Practice 2008 and the corporate governance perspectives that are considered as essential norms to sustain any company as identified by Mardajono (2005).

International scandals literature argues that interviews as a data collection method will definitely be flawed when investigating a collapsed company. Interviews from board of directors of ACCCL were not considered and descriptive case study analysis in this thesis solely relied on archives available for public review. Generally expected role of internal and external corporate governance actors, described in Corporate Governance Code of Best Practice and Companies Act was compared with the absolute role performed by all corporate governance actors that were identified in empirics.

Apparent findings of the study show evidence of, internal and external governance failures within and outside the company from its inception till its collapse in year 2008. Astonishingly all information demand and supply side actors, all statutory bodies of auditors and regulators failed to monitor activities of ACCCL. Additionally there was the multiple failure of external audit pre and post collapse of the company. The company violated all Principles described in the Sri Lankan Corporate Governance Code of Best Practice 2008. Company violated important sections described in the Sri Lanka Companies Act No. 07 of 2007. The company also violated the most important and fundamental accounting standard “true and fair view” in financial statements. Since all regulators of ACCCL failed to detect irregularities justify the fact that the company together with governance actors ultimately violated the expected duties described in the Companies Act and the best practices for good governance of a company that was explained in the Corporate Governance Code of Best Practice 2008 of Sri Lanka.

## **Chapter One**

### **Introduction**

#### **1.1. Background of the Study**

Corporate governance is a set of procedures, customs, policies and laws by which a company is directed, administered or controlled. Every country has a unique set of governance practices due to its legal and financial system, corporate ownership structure, culture and economic situation. But the context may differ from country to country. Despite differing contexts the core issue is similar. From the many variables involved, weakness in any link of the chain, may lead to breakage (Vinten, 2003).

Corporate governance structures are not uniform across countries (Keenan, 2004, Hopt and Leyens 2009) due to diversity of ownership structures in the world. Company law in France, Germany and China require listed firms to adopt a two tier board. The dual board structure in some countries is being questioned. European Union allows firms registering in European statutes to choose between the one or the two tier system (Hopt, 2002).

Corporate failures were reported from the 18<sup>th</sup> century (Jones, 2010), due to collapses of large companies around the world, there has been a huge interest in corporate governance practices of companies since 2001, most of which involved accounting frauds (Okapa, 2009). The debate goes on as to why companies want to end up in a collapse putting their reputation down which was gathered over a long period. Boyd (2003) reveals it is because a good governance system is not in place. Thomasic (2011) found weak internal control, Mulford and Comisky (2002), financial reporting irregularities, Bell and Carcello (2000) inadequate internal controls, Zandastra (2002), risk management as the causes of failures.