



The Institute of
Chartered Accountants
of Sri Lanka

28th September 2009

Dear member

**REPORT OF THE AUDITORS ON THE DIRECTORS' STATEMENT OF SOLVENCY
AS PER SECTIONS 56(2) AND 57 OF THE COMPANIES ACT NO. 07 OF 2007**

We wish to draw the attention of the members to our circular No. M-12 dated 23rd August 2008 which provided guidance on the responsibility cast on the auditors and the factors to consider in issuing the above report.

In that circular, we pointed out that in providing the Report of Auditors on the Directors' Statement of Solvency, the auditors are expected to perform audit procedures up to the date of authorization of the recommendation of dividends by the board. This is to ensure that the company has adequate net assets to issue / pay dividends after taking into account any significant impairment to assets, which are disclosed as at the balance sheet date and have occurred since the balance sheet date up to the date of authorization of the recommended dividends.

We further stated in the circular as follows:

"If the period between the balance sheet date and the date of recommending the dividends is more than 6 months, the auditor may need to obtain interim financial statements and perform at least a review engagement on such financial statements, prior to issuing the auditor's report on the Directors' Statement of Solvency.

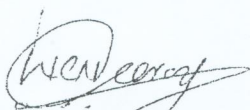
If the period between the balance sheet date and the date of recommending the dividends is within 6 months, the auditor needs to perform the procedures set out above for final dividends."

Since issuing the above circular, however, we have witnessed a major breakdown in the global economy with very tight liquidity, which has impacted the business environment in almost every country in the world. The high volatility in the market place with the resultant uncertainties has given rise to much greater audit risks than previously envisaged. This has necessitated in increased audit procedures, to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustments to or disclosure in the financial statements have been identified.

In the light of the above developments, it has become necessary to revise the guidelines contained in our previous circular with regard to some of the audit procedures pertaining to the Directors' Statement of Solvency.

Accordingly, henceforth, if the period between the balance sheet date and date of recommending the dividends is more than 3 months (instead of the previous 6 months), the auditor may need to obtain interim financial statements and perform at least a review engagement on such financial statements, prior to issuing the Auditor's Report on the Director's Statement of Solvency. In extreme situations, where the auditor feels that there could be significant uncertainties as regards solvency, given the state of affairs of the company, he may even consider it necessary to carry out a full audit on the latest financial statements rather than performing only a review.

If the period between balance sheet date and date of recommending the dividends is within 3 months, the auditor will need to perform the procedures set out for final dividends as stated in the circular dated 23rd August 2007.


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