



Securities and Exchange Commission
of Sri Lanka

FINANCIAL REPORTING SURVEILLANCE PROGRAMME

31st December 2009



CORPORATE AFFAIRS DIVISION

Securities and Exchange Commission of Sri Lanka

Financial Reporting Surveillance Programme

1st January 2009 - 31st December 2009

Corporate Affairs Division



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1.0 Introduction

The Securities and Exchange Commission of Sri Lanka was established to regulate the Securities Market in Sri Lanka. Its ultimate responsibility is to protect investors, and to maintain a fair, efficient and orderly market.

The commission regards financial reporting by the listed companies to be fundamentally imperative to the fairness, efficiency and transparency of the Sri Lanka's Capital Market.

The Commission's Financial Reporting Surveillance Programme

The Surveillance Programme was carried out with the aim of improving the quality of the financial reporting of the listed companies so that:

1. The Listed Companies' financial disclosures are clear, accurate and comprehensive.
2. Investors can have confidence in the credibility of financial information provided by the listed companies.
3. High quality financial reporting contributes to the integrity of the Sri Lanka's Capital Market.

The Financial Reporting Surveillance Programme involves review of the financial reporting practices of Listed Companies.

The purpose of the Commission's reviews is to form a view on

- a) The level of compliance with the Sri Lanka Accounting Standards (SLAS) as specified in the CSE Listing Rules.
- b) Whether any breaches of the SLAS identified in those financial statements are likely to have an impact on the true & fair view of the financial status and are likely to be materially misleading to users in the context of information disclosed as envisaged under the SEC Act and therefore require enforcement action.
- c) The transparency, clarity, comprehensiveness of financial reporting disclosure requirements and the overall quality of financial reporting by Listed Companies.



2.0 Scope

A desktop review of each financial report is performed in the wider context of the annual report. For the purpose of evaluation of financial statements, issuers are selected based on the highest number of trades per year. Furthermore following factors are considered for timely feed back.

- 1 Number of complaints received
- 2 Unusual price fluctuations
- 3 Changes in company operations/ business activities
- 4 Restructuring or business acquisitions
- 5 Changes in company management(Corporate Governance)
- 6 Modified Audit Opinion (Emphasis of Matter, Qualified, Disclaimer and Adverse)
- 7 Changes in Auditors

The review covered 86 companies of the following sectors with Balance Sheet dates from 1st April 2008 to 31st March 2009.

No	Sector Name	Number of Companies
1	Bank, Finance & Insurance	16
2	Beverage Food Tobacco	5
3	Chemicals& Pharmaceuticals	3
4	Construction & Engineering	0
5	Diversified Holdings	4
6	Footwear & Textiles	0
7	Healthcare	5
8	Hotels & Travels	10
9	Information Technology	0
10	Investment Trust	2
11	Land & Property	4
12	Manufacturing	16
13	Motors	2
14	Oil Palms	0
15	Plantations	7
16	Power & Energy	3
17	Services	4
18	Stores & supplies	1
19	Telecommunications	0
20	Trading	4
	Total	86



3.0 Identification of Issues

Out of the Eighty Six annual reports reviewed, Thirty Two reports had matters that prompted the Commission to write to the respective companies. According to the magnitude of the issues identified, either a letter of comment or a letter of caution was sent.

A summary of the frequent violations of SLAS, Listing Rules, Company's Act., and other significant matters are as follows;

3.1 Non Compliance with SLAS

It was observed that companies mostly violated the Framework for the Preparation and Presentation of Financial Statements and Sri Lanka Accounting Standards.

(Refer Annexure 01)

SLAS 03 - PRESENTATION OF FINANCIAL STATEMENTS

- Para 7A: The directors of the governing body should sign financial statements which should also contain a statement of responsibility.
- Para 13: Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentations requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of SLAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.
- Para 76 (a) (v) :An entity shall disclose, either on the face of the balance sheet or in the notes for each class of share capital the rights, preferences, and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.
- Para 76 (b): An entity shall disclose, either on the face of the balance sheet or in the notes, a description of the nature and purpose of each reserve within equity.
- Para 96 (c): An entity shall present a statement of changes in equity showing on the



face of the statement total income and expense for the period showing separately the total amounts attributable to equity holders of the parent and the minority interest.

SLAS 9 – CASH FLOW STATEMENTS

- Para 20: An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in para 21 & 23 are reported on a net basis.

SLAS 30 – RELATED PARTY DISCLOSURE

- Para 12 - Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall be disclosed.
- Para 17- If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transaction and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in Para 16 to disclose key management personnel compensation. At a minimum, disclosures should include:
 - a) The amount of the transaction
 - b) The amount of outstanding balance and,
 - I. Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - II. Details of any guarantees given or received;
 - c) Provisions for doubtful debts related to the outstanding balances; and
 - d) The expense recognized during the period in respect of bad or doubtful debts due from related parties.



3.2 Non Compliance with Other Listing Rules

Among the 86 listed companies reviewed, 19 companies had not complied with listing rules.
(Refer Annexure 02)

Section 6.5 – Remuneration Committee

- Section 6.5 (a). Composition of “Non Executive” & “Independence” for Directors.

Section 8.7 – Contents of Annual Report

- Section 8.7 (b): Principal activities of the entity and its subsidiaries.
- Section 8.7(c) : A statement of each Director’s holding in Securities of the entity.
- Section 8.7(i) : The significant financial ratios and securities information.
- Section 8.7(j) : Significant changes in the entity’s or its subsidiaries’ fixed assets and the market value of land.

3.3 Non Compliance with the Companies Act No. 7 of 2007

Few companies have not complied with certain provisions of the Companies Act No. 7 of 2007.

- Section 150 : Obligation to prepare financial statements.
- Section 152 : Obligation to prepare group financial statements.
- Section 168.1 (k): Contents of the annual report



4.0 Review and Enforcement

The Commission's approach is to write to an issuer on a matter identified in a review where the nature of the matter prompts it to be of regulatory importance or further clarification of information is required.

The Commission writes to issuers requesting additional information and in some cases asks issuers to revise or enhance disclosures in future financial statements.

According to the seriousness of matters identified either a letter of comment or a letter of caution is being sent.

- A Letter of Comment issued by SEC suggests necessary changes to the financial statements of companies.
- A Letter of Caution is a letter sent to listed companies who have contravened laws & regulations which have a bearing on investor protection. Via such letters of caution we bring to the notice of the listed companies concerned the exact provisions which have been violated and caution such parties against such violations.

4.1 Overall Comment

We found violations and non compliances with SLAS, Listing Rules and Companies Act. It was observed that SLAS 30, SLAS 09, SLAS 3 and section 6.5 and 8.7 of the Listing Rules were mostly violated.

According to our analysis up to 31st December 2009, we have sent 26 letters of Comment and 6 Letters of Caution.

A few cases are under legal scrutiny to review the necessity of any enforcement action.

For further technical opinions, some matters were also referred to SLAASMB.

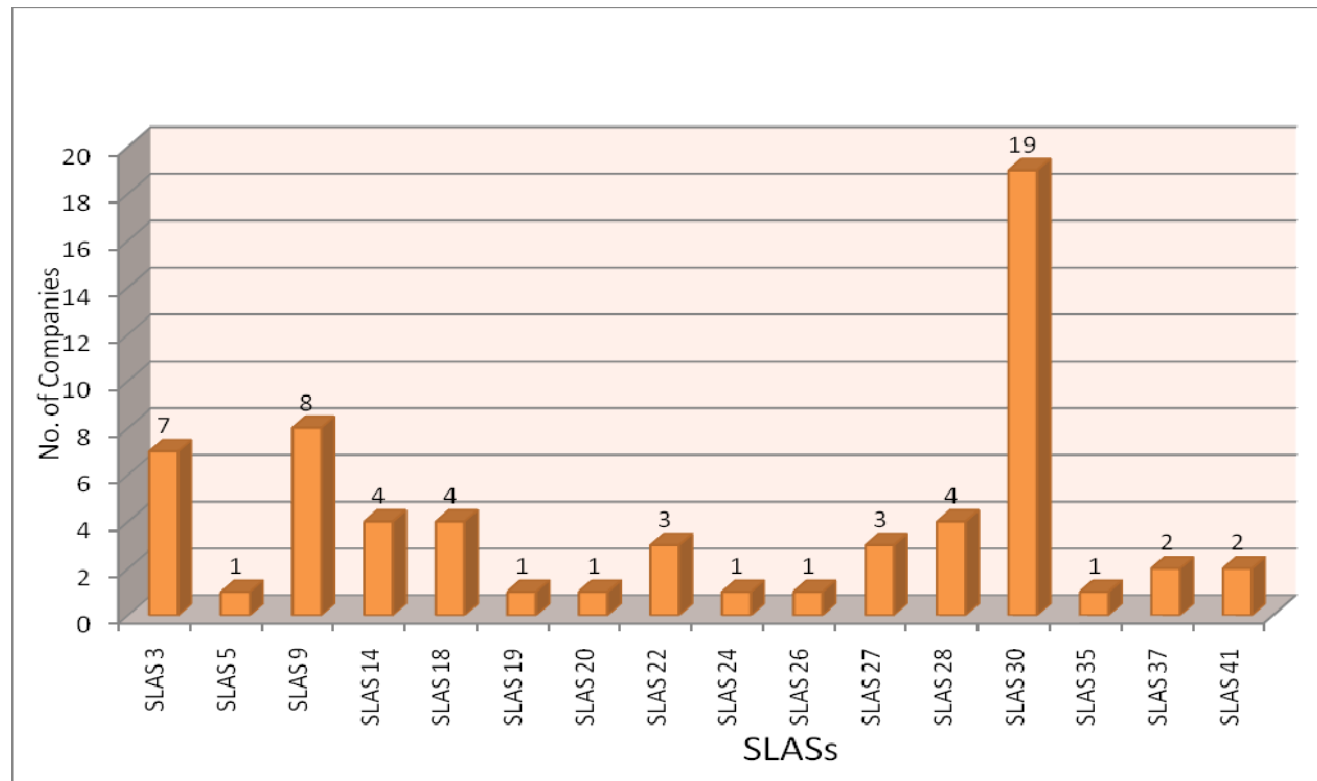
The Commission encourages issuers to ensure that all of their disclosures are sufficiently clear to explain matters included in their financial reports and should review their compliance with statutory requirements as a critical step in the preparation of an annual report.

The Commission will continue to review the listed companies' financial reporting as part of the Financial Reporting Surveillance Programme and instigate steps appropriate to encourage adherence to Financial Reporting requirements of SLAS, Listing Rules and Companies Act.



ANNEXURE 1

Non Compliance with SLASs



ANNEXURE 2

Non Compliance with CSE Listing Rules

