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INTELLIGENCE & INSIGHT FROM CA SRI LANKA

# Abacus

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## EMERGING OPPORTUNITIES FOR SMPS

CA



THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA



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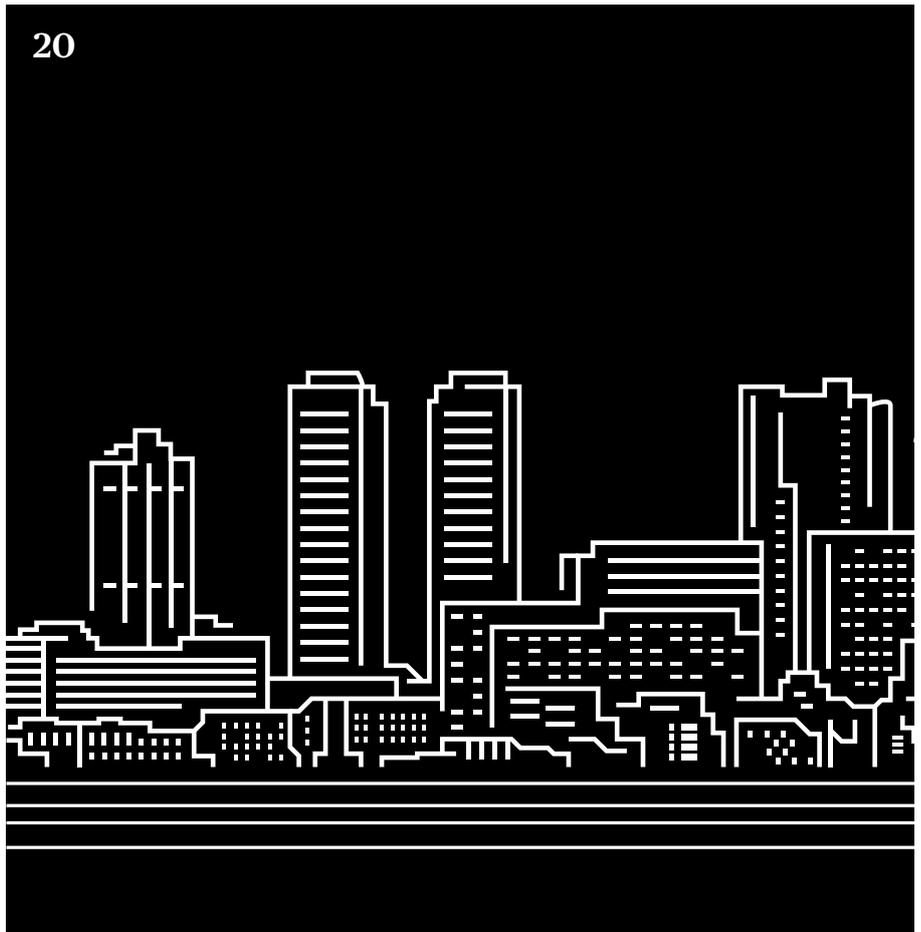
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## INTELLIGENCE &amp; INSIGHT FROM CA SRI LANKA

# Seize the moment

**S**ri Lanka has made significant policy gains in 2017. Despite being laggardly, inconsistent and inefficient in implementing policy reforms, the government is slowly laying the foundation for accelerated, sustainable economic growth. In this light, the Colombo International Financial Centre, the Hambantota Port deal with the Chinese, the new Inland Revenue Act and the Foreign Exchange Act have found acclaim for being steps in the right direction for the most part. There are more reforms to come in areas like finance, trade, Customs and state-owned enterprises. Influencing public opinion and implementation are two challenges the government must overcome to propel the economy forward.

In this issue of Abacus, we look at emerging opportunities for small and medium practitioners (SMPs) as the economy transitions into a period of high growth. There'll be opportunities in forensic accounting, business process outsourcing, management consultancy and even IT. SMPs also have an opportunity to develop capacity and grow their businesses by merging with each another, enabling them to acquire larger corporate clients. But, there are challenges they need to overcome. One challenge is developing the ability to quickly adapt to local and global dynamics. Globally, markets, laws and regulations are becoming difficult to unravel. IT is increasingly disrupting the accounting profession. But, there are more opportunities than threats, even for SMPs.

This issue also brings out some recent developments in Sri Lanka in the areas of accounting standards, real estate, taxation, trade and online financial services.



Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is one of the largest professional organizations in Sri Lanka in which 5,400 chartered accountants have obtained membership. The Institute provides insight and leadership to the accountancy and finance profession in Sri Lanka as well as globally. Our well-qualified members are trained to provide financial knowledge and guidance based on the highest professional, technical and ethical standards, thereby assisting communities and organisations gain long-term sustainable economic growth.

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## PRESIDENT'S MESSAGE

# It's time to re-strategize



**Increasing risks also spell out the need to develop a new generation of leaders who are not only capable of driving change, but can also minimize risks and threats facing a company**

Sri Lanka has great potential to be a global player; but to reach this goal, our country needs vision, commitment and most importantly hard work, by not only policymakers but corporate leaders and professionals including accountants, who are the gatekeepers of organisations.

Companies and professionals who were more accustomed to doing business the traditional way are today running the risk of slipping downhill, while some have already faded from the corporate map. This situation has also led to an increasing debate on why it's important for companies and their leadership to re-strategize, embrace change and be flexible when doing business.

The broader spectrum also expects accountants, including CAs, to embrace and be a part of this change, because if there is one profession that is inherently synonymous with progression and developing with the ever-evolving times, it has been the accounting profession. Hence, in the current context, there is an increasing need for accountants to embrace this change and be part of this growing trend if they are to survive in today's technologically revolutionized world.

The accelerating rate of volatility, uncertainty and complexity has also had its toll on not only organisations, but professionals as well. Today, the world operates amid increased risks of corruption and bribery, monies change hands at the blink of an eye, and accountants have to take on new roles if they are to command the respect they enjoyed during the past few decades.

Increasing risks also spell out the need to develop a new generation of leaders who are not only capable of driving change, but can also minimize risks and threats facing a company, and ensure that the organisation

achieves sustainable success, which will ultimately reflect on the long-term development of the country, and thus help Sri Lanka enjoy its rightful place on the world map.

This is why professional bodies such as CA Sri Lanka must take on the responsibility to give leadership to this change by helping its members develop not only the important components such as technical skills and professional competencies, but by helping members embrace the importance of thinking out of the box, while highlighting leadership qualities, and upholding local and international standards and regulations.

At the end of the day, we want our CAs to stay ahead of the game, lead the change and drive Sri Lanka's future journey to success.

**Lasantha Wickremasinghe**  
 President  
 CA Sri Lanka

# PERISCOPE

## Sri Lanka not to tax bonds retrospectively: Eran

According to State Minister for Finance Eran Wickramaratne, Sri Lanka's tax-free listed bonds issued in the past are likely to be treated the same way until they are redeemed, and the principle is that there will be no retrospective taxes.

Since new taxes were announced in the budget for 2017, Sri Lanka's corporate bond

markets have been in limbo. According to Fitch Ratings, about Rs30 billion of corporate bonds that were issued preliminary ratings did not go ahead. Before 2016, tens of billions of listed bonds were issued with interest tax-free in a bid to boost the market and popularise them among small investors.

## Moody's: Sri Lankan bank profits under pressure

According to Moody's Investors Service, the outlook for Sri Lanka's banking system is negative, with both asset quality and profitability under pressure. Srikanth Vadlamani, a Moody's Vice President and Senior Credit Officer, has stated that the economy will only see a modest growth rebound as the government's fiscal constraints continue to limit public investment and private spending despite stronger goods and services exports. In a statement, he further said credit growth was very high over the last two years, with the credit multiplier (credit growth/GDP growth) shooting up to an average of 2x over 2015 and 2016, up from 1x in 2014.

Vadlamani states that, as the loans made over this period start seasoning, asset quality will deteriorate. Rising interest rates also add to repayment burdens. However, increased loan loss reserves are expected to provide some comfort. In addition, profits will come under pressure as higher funding costs offset the benefits from higher loan rates, while credit costs move higher.

Moody's conclusions are contained in its recently released "Banking System Outlook: Sri Lanka, Macroeconomic risks from

weak fiscal position and deteriorating bank asset quality underpin negative outlook". Moody's outlook assesses five key factors: operating environment, stable; asset risk and capital, deteriorating/stable; profitability and efficiency, deteriorating; funding and liquidity, stable; and government support, deteriorating. However, the rating agency said that, at the same time, capital will remain stable as banks are raising capital and reducing dividends to comply with Basel III requirements, though execution and market risks could derail fundraising efforts.



## China relaxes currency controls



As the renminbi strengthens, China has relaxed currency controls. China's central bank has scrapped two rules that were intended to strengthen the renminbi. This step indicates that the official nervousness about currency depreciation and capital flight has somewhat eased.

China's foreign exchange reserves have risen for seven months since hitting a three-year low in January. The renminbi has gained 6.9%, thereby reversing last year's record loss of 6.5%. It has also put the currency on pace for its best year ever.

### 6.9%

rise of the renminbi

According to reports, in a notice sent to banks recently, the People's Bank of China (PBoC) has dropped a requirement that raised the cost of using currency forwards, a type of foreign exchange derivative, to bet on renminbi depreciation. Separately, the PBoC has also eliminated a requirement that banks hold reserves against renminbi deposits held in Hong Kong and other offshore centers.

## PERISCOPE

### Bitcoin, virtual currency deals below \$600 could become tax exempt

The Internal Revenue Service (IRS) of the US is hunting digital currency users because very few people seem to be reporting their transactions. The IRS is using what is known as John Doe summons to obtain data on bitcoin and other digital currency users. It is even searching for bitcoin user identities with software. This IRS scrutiny is causing many people to worry that they may owe taxes, penal-

ties and interest. In extreme cases, the IRS could even pursue tax scofflaws criminally.

However, a bill titled 'The Cryptocurrency Tax Fairness Act' was recently introduced in the House, and it calls for a tax exemption for transactions under \$600. If it passes, it might be similar to foreign bank accounts that, in the aggregate, have less than \$10,000 at all times during the year.



### The economic cost of Hurricane Irma



In the United States, the economic cost of Hurricane Irma could rise to as high as \$300 billion as the storm damaged homes, businesses and key crops including orange groves in the state of Florida.

Approximately \$2 trillion in property lay in the storm's path, and it's expected to have a potential impact on US food prices in the aftermath. Florida is the second-largest produce grower in the US and the world's second-largest producer of orange juice. The state also grows other important crops such as grapefruit, tomato, watermelon and sugarcane. It is also believed that Irma could wipe out as much as 20% of the state's citrus crop, a significant part of its economy. The hurricane has already unsettled financial markets, sending insurance stocks falling and orange juice futures surging.

### Sri Lankans can invest up to \$200,000 overseas

Sri Lanka's new forex law has allowed an individual to invest 200,000 dollars outside the country, in their lifetime, a partnership 300,000 dollars, but an unlisted company could invest 500,000 US dollars a year.

A listed company in the Colombo Stock Exchange could invest up to 2.0 million dollars a year. The outward investors

could buy shares, units, debt securities, and sovereign bonds.

A partnership or company setting up an office overseas could also take out 300,000 US dollars a year.

The funds have to be remitted from an outward investment account. The limits could be exceeded by the use of capital gains.

Sri Lankan firms could in general

invest any amount to set up offices or subsidiary with specific central bank approval.

Sri Lanka has exchange controls because a currency board was replaced in 1951 with a soft-pegged central bank which printed money and generated foreign exchange shortages, high inflation and currency collapses.

(EconomyNext.com)

# IMF warns Sri Lanka on forex policy conflicts with inflation targeting

The International Monetary Fund has warned that Sri Lanka's exchange policy is inconsistent with inflation targeting, and it has to stop interventions if it wants to move to a successful inflation targeting regime.

"While the CBSL can retain a role for smoothing excessive exchange rate volatility, it should adopt FX intervention policies consistent with greater exchange rate flexibility under flexible inflation targeting," an IMF report said. A technical memorandum added that the "roadmap for flexible inflation targeting will be completed by October 2017 to establish inflation as the nominal anchor moving away from using the exchange rate as the de-facto anchor". An inflation targeting arrangement works when an exchange rate floats and new money is added or withdrawn to maintain a policy rate (monetary policy) through the sale of domestic assets like Treasury bills, and only an inflation index is targeted. When new money is added (through the purchase of dollars) or withdrawn (through the sale of dollars to defend a currency) to

target an exchange rate (de facto peg), the monetary policy conflicts with the exchange rate policy. To maintain a policy rate, such interventions have to be 'sterilised'. Buying dollars and withdrawing rupees that are generated (sterilised forex purchases), which can be done when credit moderates, leads to higher forex reserves and exchange rate stability.

But, selling dollars and printing money (sterilised forex sales) when credit demand is high leads to balance of payments crises, where more and more forex reserves are sold, and more and more treasuries are bought to print money and keeps rates down, driving credit ever higher. Avoiding interventions (floating) generates temporary volatility of the exchange rate, but no liquidity injections have to be made to offset sales. "The authorities also pledged to avoid an overvalued exchange rate at the expense of reserves and a shift towards an inflation targeting regime in their 2017 roadmap, but have yet to demonstrate the commitment to sufficient exchange rate flexibility under external shocks," the IMF report said.

## Sri Lanka's EPF contributions to be taxed the same way

Salaries of workers paying Employees Provident Fund will continue to be taxed with no change, State Minister of Finance Eran Wickramaratne said. "The status quo will remain," he stated. Ex-President Mahinda Rajapaksa had warned that, under a new Inland Revenue Act, the taxable gross salary of a person will be raised by 12% to include the employers' contribution to the Employees Provident Fund. If there is no change, only the 8% deduction will be taxed. The new administration is also taking away a Rs35,000-50,000 a month transport or car allowance that was made tax-free by Rajapaksa.

## Is Bitcoin heading into classic bubble territory?

**350%**  
increase in Bitcoin's value in 2017

Ranging from asset price bubbles such as tulips in the early 1600s, internet stocks in the late 1990s, to US house prices before 2008, there have been numerous incidents of price bubbles in the history of financial markets. The virtual currency bitcoin, the most well-known cryptocurrency, recently neared \$5,000 and has risen about 350% this year. It has so far defied skeptics and delighted its growing ranks of proponents.

## US senate aid to get a \$670,000/yr job overseeing auditors

A lesser-known Republican Senate aide William Duhnke is believed to be on track to be selected to become chairman of the Public Company Accounting Oversight Board of the US. The position is considered to be one of the most attractive regulatory roles in Washington with a salary of \$670,000 per year, which is even well above the American president's salary of \$400,000.



# PERISCOPE

## Sri Lanka to get \$5 billion from ADB up to 2022

The Asian Development Bank has unveiled a financing plan that will provide up to \$5.0 billion to Sri Lanka in the five years up to 2022 in a bid help the country reach upper-middle income status.

"In its new country partnership strategy (CPS), the ADB aims to respond flexibly to evolving demands of the government," ADB Country Director in Sri Lanka Sri Widowati said. The ADB will continue to invest in programmes and projects in sectors where it has strong operational experience, while exploring new areas that will push the country further towards reaching upper-middle income country status. In the process, ADB

# \$5 bn

Total ADB assistance to Sri Lanka until 2022

operations will also promote inclusiveness; strengthen environment, climate change and disaster risk management; and promote gender equality. To boost inclusivity, the funding will go to commercialise agriculture, improve rural infrastructure and service delivery, and expand finance to boost small and medium-sized enterprises. Each year, programmes of \$800 million to a billion

are earmarked. About \$8 million a year of technical assistance is planned. The ADB said its 2018-2022 CPS aims to diversify economic activities, boost productivity and improve inclusivity. The financing will go to transport, energy, urban infrastructure (roads water, sewage), finance an economic corridor from Colombo to Trincomalee, and boost human capital. This includes money for wind and solar energy. The ADB will help government efforts to strengthen the legal system, develop capital markets and establish a credit guarantee institution for small and medium-sized enterprises. It will also help public-private partnerships.

## Sri Lanka mulls relaxing domestic market curbs on BOI firms

The Sri Lankan government is considering relaxing restrictions on domestic sales of mainly export-oriented companies under its Board of Investment, which gives incentives like tax breaks. State Minister of International Trade Sujeeva Senasinghe said the government is committed to liberalising the economy further and giving consumers a better choice.

# 20-30%

Output of BOI companies that may be sold to the local market

At present, companies registered under BOI rules can sell only 10% of their output in the local market, with 90% having to be exported, BOI Chairman Dumindra Ratnayaka said. But, at a news conference, State Minister Senasinghe said the government might loosen the restrictions. "We might make it 20-30% (local sales)," he said. "Sri Lankans also need to be able to buy original products at good prices. For example, if they (foreign investors) make a good fridge or microwave oven (in Sri Lanka), Sri Lankans should also have the benefit of buying it at a lower cost. The public should benefit."

## Sri Lanka to charge a 10% capital gains tax

# 10%

Capital Gains Tax

Sri Lanka will charge a 10% capital gains tax on investments other than listed shares, under a new inland revenue bill to be effective from April 2018.

The principle residence of a person, which has been owned for more than three years and in which a person has lived for more

than two years, will be exempt. The cost of the investment would be the market value on September 2017.

Capital gains of below Rs50,000 per transaction and Rs600,000 a year would be exempt. An existing 10% withholding tax on government securities has been withdrawn. Royalties will be charged a 14% withholding tax, and management and technical fees will be charged 14% for non-residents only. Fees for other services will be charged 5%.

Sri Lankan president to pay income tax; Finance Minister

Sri Lanka's president will pay income tax under a new law, Finance Minister Mangala Samaraweera said. The draft law contained a provision to exempt President Maithripala Sirisena from income tax, continuing a provision that existed in the old law that exempted ex-President Mahinda Rajapaksa from paying income tax.

"We have deleted it. The request came from none other than President Maithripala Sirisena himself," Finance Minister Samaraweera told parliament. The tax law passed on September 07 comes into effect from April 2018.

# Sri Lanka's top personal income tax rate lower than region

## Highest Personal Income Tax Rates



Sri Lanka's highest personal tax rate at 24% is lower than most South and East Asian nations, though some countries had lower corporate tax rates, State Minister for Finance Eran Wickramaratne said in parliament recently.

Sri Lanka's highest personal income tax was 24%, compared to 30% for Bangladesh, 27.5% in Brazil, India's 35%, Malaysia's 28%, Mexico's 35%, South Africa's 35%, and 35% in Thailand, Vietnam and Turkey, he said.

But, the corporate tax rate is 28%, vs Bangladesh's 35%, Brazil's 34% and India's 30%. The rate in Malaysia, Vietnam and Turkey is lower than in Sri Lanka. Minister Wickramaratne said, while the basic tax rate for corporates is 28%, the lower rate is 14%, which applies to areas like exports.

10% tax from Sri Lanka treasury bonds removed

0%

Withholding tax on government securities

Sri Lanka will end the practice of charging a 10% withholding tax on government securities under a new Inland Revenue Act to be effective from April 2018.

During the 'committee stage' of legislating the new bill, Finance Minister Mangala Samaraweera moved changes to clause 84 of the proposed bill. The new section d) of clause 84 adds the exemption that 'discount interest or paid to a person on security of treasury bond under the Registered Stock and Securities Ordinance (Chapter 420) or Treasury bills under the Local Treasury Bills Ordinance (Chapter 417)'.

At the moment, a 10% withholding tax is in effect for Treasury bills. Interest is quoted in the market net of tax.

## Sri Lanka draws more American investors with New York Forum

Sri Lanka held an investor forum in New York on 16 October to attract more institutional investors in the United States, who are ranked the top investors in the Colombo bourse this year.

The "Invest Sri Lanka Investor Forum" was organised by the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka (SEC), in association with CSE member firms and leading listed companies.

The Invest SL Forum hosted in New York in 2014 drew over 200 investment professionals, and helped that year to record the highest annual purchases in the Sri Lankan stock market from the US. This year's forum included a series of pre-scheduled one-on-one and group discussions between fund managers and Sri Lankan listed companies. It was held on 16th and 17th October 2017.

## Sri Lanka to buy 300,000 MT of LPG from Shell



Sri Lanka's state-run Litro Gas has struck a deal to buy 300,000 metric tonnes of liquefied petroleum gas from Shell International Eastern Trading Company, according to a cabinet decision. Litro Gas will pay the Saudi Aramco contract price plus \$47.50 per metric tonne of LPG. (EconomyNext.com)

# The Euro rises 14% against the dollar

Due to optimism about economic growth and fewer political risks, the Euro has risen more than 14% against the dollar so far this year. Market analysts expect this rise to continue. Another reason for the Euro's strength is that other major world currencies are looking less popular. The common currency is currently the best performer among developed market currencies, and has traded between \$1 and \$1.40 over the past few years.

Europe's improving growth contrasts with the UK, which is losing economic momentum as it continues to deal with Brexit negotiations. This contrast has also helped the Euro to rise 9% against the Sterling Pound so far this year.



Source: <https://www.cnbc.com/2017/08/29/euro-is-up-14-percent-to-the-dollar-and-this-bull-run-looks-set-to-carry-on-say-analysts.html>

# PERISCOPE

## PPP in agriculture logistics network mooted



Sri Lanka's government aims to set up an 'Agriculture Logistics Network' through a public-private partnership (PPP) to improve the storage and transportation of food, and reduce existing high wastage.

The network is among proposals in the coalition government's 'Vision 2025' policy document called 'Country Enriched' launched by President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe. "We will encourage the private sector to

modernise the agriculture sector, and introduce efficient and stable modern value chains through models such as trader-farmer contracts, contract grower systems and agriculture mega zones," it said.

It further stated, "We will introduce an Agriculture Logistics Network (ALN) through a PPP that incorporates state-of-the-art solutions for storage and transportation, ICT to improve information asymmetries, and real-time monitoring for effectiveness."

According to the document, the government will undertake agricultural reforms to minimise food insecurity and create inclusive growth by developing underserved districts. An estimated 4.7 million of the island's 20 million people were undernourished in 2015, with high regional disparities in malnutrition, it said. Malnutrition was especially high in the estate sector.

## EU countries try to raise tech firms' taxes by targeting revenue

The finance ministers of France, Germany, Italy and Spain have written a joint letter to the European Union's presidency and commission calling for taxes on tech giants' revenues, not just their profits. The four nations want the Commission to produce an 'equalization tax' that would make companies pay the equivalent of the corporate tax in the countries where they earn revenue.

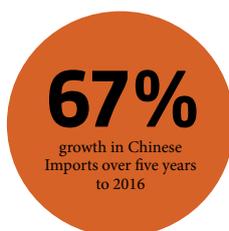
The presidency has already scheduled a talk about making it possible to tax companies wherever they produce value. Google recently avoided tax in France because its operations are based in Ireland. Governments want to eliminate that technicality going forward.

Google, Amazon, Apple and other similarly large companies will put up a fight if the letter turns into definitive action. These tech firms frequently base their operations in countries with strong tax incentives, like Ireland, to dramatically reduce the taxes they pay in Europe and beyond. If they had to pay more typical taxes in all EU member states, they might pay billions more every year.

## China FTA soon

The government has said the FTA with China would give exporters access to the world's biggest market, and that it wants to liberalise the economy by removing import cess that gives undue protection to local industries at the expense of consumers.

The Ministry of Industry and Commerce, in a statement, assured industrialists that the forthcoming FTA with



China is designed with local industry concerns in mind, and that they would be briefed on the deal's progress.

"We will not allow local industries and

employment to be hit by any free trade agreements," Minister of Industry and Commerce Rishad Bathiudeen told industrialists at a meeting on the forthcoming government budget. Industrialists from footwear, electrical and electronic products, pharmaceuticals, cosmetics, rubber, wood, automotive components, boat building, processed food, and packaging were represented at the forum, along with business chambers.

According to Sri Lanka's Department of Commerce, in the five-year period of 2012 to 2016, Chinese imports to Sri Lanka surged 67%, from 2012's \$2.56 billion. Chinese imports in 2016 increased 15% to \$4.27 billion from 2015's \$3.73 billion. These figures included light vessels and dredgers Chinese companies had imported for the huge port city reclamation project next to the Colombo port.

## Technology to replace auditors?

94%

accountants and auditors

97%

payroll and timekeeping clerks

98%

bookkeepers/bookkeeping, accounting and auditing clerks

99%

tax preparers



According to a research report from the University of Oxford titled “The Future of Employment: How susceptible are jobs to computerisation?”, technology could potentially replace 94% of accountants and auditors; 97% of payroll and timekeeping clerks; 98% of bookkeepers/bookkeeping, accounting and auditing clerks; and 99% of tax preparers.

## Sri Lanka to export cannabis



Sri Lanka’s government will begin farming cannabis to ensure high-quality supplies for the indigenous medicine industry, as well as for lucrative exports to the US market, Health Minister Rajitha Senarathne said.

A 100-acre farm will be set up at Ingiriya, in the minister’s home constituency of Kalutara, to cultivate weed, which is currently illegal, the minister said, adding that the decision was fueled by a severe shortage of the narcotic that is also used as medicine.

The farm could produce over 25 tonnes a year, and would be under military protection, the minister said.

(EconomyNext.com)

## Audit firm rotation gets the nod in South Africa

The South African parliament’s finance committee has decided to support the Independent Regulatory Board for Auditors’ (IRBA) decision to introduce mandatory audit firm rotation. Although it’s not convinced that the introduction of audit firm rotation will advance the transformation of the accounting profession as claimed, the committee believes the case for it is stronger than the case against it.

The country’s Finance Minister Malusi Gigaba has endorsed the IRBA’s decision, despite it being strongly opposed by the chief financial officers of the top 100 companies listed on the country’s stock exchange.

## Sri Lanka mulls rules for electric vehicle charging licensing, tariffs

Sri Lanka’s electricity sector regulator has started taking public comments on proposed rules for electric vehicle charging stations (EVCS) and its users as the need for widely distributed, publicly accessible charging stations grows with more electric vehicles being imported.

The Public Utilities Commission of Sri Lanka (PUCSL) said comments on proposed regulatory tools for EVCS and the protection of consumer rights would be open till 4 October 2017. It seeks comments on stakeholders and concerns on a range of issues including the determination of end-user tariffs, safety and other technical standards for EVCS and issues related to residential charging facilities.

The registration of electric motor cars in Sri Lanka has increased from 90 in 2014 to 3,238 in 2015. Total registration of electric motor cars over 2011-2016 is about 4,349.

### Registration of electric cars



## Focus On - Technical

# Changes to SLFRSs

The annual publication of Sri Lanka Accounting Standards (SLFRSs) 2017 includes the below-mentioned amendments to the previous version of SLFRSs effective from the financial periods beginning on or after 1 January 2017



### AMENDMENTS TO LKAS 7

The objective is to clarify LKAS 7 to improve information provided to users of financial statements about an entity's financing activities. It requires companies to provide information about changes in their financing liabilities arising from financing activities, and includes the following:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values
- Other changes

It also suggests providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments would help investors evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses) in order for them to get a better understand of changes in a company's debt position.

The Disclosure Initiative (Amendments to LKAS 7), issued in September 2016, has added paragraphs 44A-44E to LKAS 7. These amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

## AMENDMENTS TO LKAS 12

The objective of the amendments to LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether the tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Additionally, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount. The amendments to LKAS 12 were issued in September 2016, and are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

## AMENDMENTS TO SLFRS 12

The amendments to SLFRS 12 provide clarification to the scope by specifying that the disclosure requirements of SLFRS 12 (except for those in paragraphs B10-B16) apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with SLFRS 5 Non-current Assets Held for Sale and Discontinued Operations as well.

As part of the annual improvements to SLFRS's 2014-2016 cycle, the amendments to SLFRS are effective for annual periods beginning on or after 1 January 2017.

## AMENDMENTS TO THE SRI LANKA ACCOUNTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES (SLFRS FOR SMES)

Most of the amendments to the SLFRS for SMEs are minor and only affect one of two paragraphs in the standard itself, with clarifications being provided to assist the preparers and other users of this standard. However, the following three aspects may be considered the biggest amendments made:

- Allowing an option to use the revaluation model for property, plant and equipment (PPE) in Section 17 Property, Plant and Equipment. However, the revaluation option has been permitted in Sri Lanka with the issuance of the Statement of Alternative Treatment (SoAT) on Revaluation Option for PPE for entities adopting SLFRS for SMEs in August 2014.
- Aligning the main recognition and measurement requirements for deferred income tax with LKAS 12 Income Taxes. A more conceptual approach is followed for recognising and measuring deferred tax as against the previous step approach to determine the amount of deferred tax. Besides, there are few differences in the recognition and measurement of deferred tax as well.
- Aligning the main recognition and measurement requirements for exploration and evaluation assets with SLFRS 6 Exploration for and Evaluation of Mineral Resources. As this is a specialised activity, it might not be relevant to many entities in Sri Lanka.

Another important amendment relates to the exemption due to "undue cost or effort" in applying the requirements of SLFRS for SMEs, providing guidance on what is meant by the undue cost or effort exemption that are referred to in specific sections of the standard. Entities that are currently using this exemption or those considering it should ensure that they fully understand what it entails, and when it could be used or not. A new requirement for disclosing management's reasoning for using such an exemption has also been added. Other amendments can merely be considered as clarification guidance of the accounting requirements in the case of specified circumstances.

Amendments to SLFRS for SMEs 2015 were issued on June 2015. Entities reporting using SLFRS for SMEs are required to apply the amendments for annual periods beginning on or after 1 January 2017, with earlier application being permitted. ■

## Focus On - Technical

# Recent Developments in Auditing Requirements

In the backdrop of rising challenges with the global financial crisis and complexities of capital markets, the need for enhanced transparency in financial reporting has been consistently highlighted. As a result, recent developments in auditing such as the improved Auditor's Report aims to improve the credibility and quality of financial statements. Key enhancements to the Auditor's Report are as follows:

**Key Audit Matters:** For audits of listed entities, a new section in the Auditor's Report called Key Audit Matters (KAM) will highlight those matters that, in the auditor's professional judgment, were of most significance in the audit. These are included in a separate section of the Auditor's Report explaining the nature and intent of KAM.

**Going Concern:** Enhanced auditor's reporting on the following:

- Description of the respective responsibilities of management and the auditor for GC.
- A separate section when a material uncertainty exists and is adequately disclosed, under the heading "Material Uncertainty Related to Going Concern". Previously, such reporting would have been under the header "Emphasis of Matter".
- A new requirement to challenge adequacy of disclosures for "close calls" in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt over an entity's ability to continue as a 'Going Concern'.

### Other Information:

- Management's responsibility for other information.
- Identifies other information obtained or expected to be obtained.
- Explains the auditor's responsibilities.
- Work effort in relation to other information.
- A statement on whether there is something to report with regard to other information, or not.
- A statement describing any uncorrected material misstatements.

Other Information is financial or non-financial information (other than financial statements and the auditors' report thereon) included in an entity's annual report: for example, Management Discussion and Analysis Statement, or a Corporate Governance Statement.

**Restructuring the Audit Report:** The "opinion" section is required to be presented first, followed by the "basis for opinion" section.

**Responsibilities of the Auditor, Management and Those Charged with Governance:** An enhanced description of the responsibilities of the auditor and key features of an audit. An improved description of the responsibilities of the management and those charged with governance, particularly relating to Going Concern. Furthermore, the auditor is now permitted to present these descriptions in an appendix to the Auditor's Report, or where law, regulation or national auditing standards expressly permit, refer to a website of an appropriate authority.

Disclose the CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditor's report.

### Auditor's Report - A comparison of contents and their sequences

Para No	Existing Auditor's report	Para No	Enhanced Auditor's Report
1	Directors' responsibility	1	Opinion
2	Auditors' responsibility	2	Basis of opinion
3	Opinion	3	Material uncertainty related to Going Concern (if any)
4	Report on other legal and regulatory requirements	4	Key Audit Matters (only for auditors of listed entities)
		5	Information other than the financial statements and auditor's report thereon
		6	Responsibilities of the director
		7	Auditor's responsibilities
		8	Report on other legal regulatory requirements
		9	CA Sri Lanka membership number of the engagement partner (only for auditors of listed entities)

Recent developments in the Auditor's Report are expected to achieve increased transparency in financial reporting, which will positively impact the effective functioning of capital market operations and the economy at large. ■



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# Efficient borders critical for development

Clearing goods quickly at the port and transparent Customs will boost exports and attract FDI, a global trade expert says

Improving processes at ports to quickly clear goods can boost Sri Lanka's exports and attract foreign investments, says Eric Miller, an advisor to the Global Alliance for Trade Facilitation (GATF), a multilateral organisation specialising in trade reforms.

The alliance was invited by the government to develop a trade reforms programme to comply with the new trade facilitation rules of the World Trade Organisation (WTO) – of which Sri Lanka is a member – that became effective in 2017. The WTO rules aim to fast-track the movement, inspection and clearance of goods across borders. It also aims to establish cooperation between customs agencies the world-over. Miller visited Sri Lanka in April 2017 to explore opportunities for the alliance to engage in a trade facilitation reforms programme here.

Trade facilitation reforms typically aim to fix three challenges. First, delays in clearing cargo at ports lead to huge costs, forcing traders to circumvent the system and bribe Customs officials. Second, exports won't reach markets fast enough, losing competitiveness in a world where speed is everything. Third, Sri Lanka's export bias discourages imports, and is therefore coun-

**According to GATF, delaying cargo at ports amounts to a cost equal to a 0.8% duty per day**

terproductive.

"Trade facilitation is the plumbing of the global economy. It determines whether a country is competitive or not. The promise of a free trade agreement between two countries hinges on what happens at the border," Miller argues.

According to GATF, delaying cargo at ports amounts to a cost equal to a 0.8% duty per day. "If a good is stuck at the port for 10 days, it is equal to adding an 8% tariff. This is a huge cost, tempting traders to circumvent the system. This risks breeding corruption," he says.

The goal of the WTO Trade Facilitation Agreement is to end these problems, but developing countries don't have the resources to make the necessary changes. Global trade is forecast to grow by \$1 trillion each year and trading costs decline by 14.3%, all due to the Trade Facilitation Agreement. It's forecast to create over 20 million new jobs.

The WTO adopted the Trade Facility Agreement in 2013. Soon after, the governments of Australia, Canada, Germany, the UK and the US established GATF. Its mandate was to help developing countries adopt the new WTO convention. Its management comprises representatives from

# Perspective



## Perspective

the World Economic Forum, International Chamber of Commerce and the Centre for International Private Enterprise. The board includes representatives from DHL, Maersk, Fiat Chrysler and Walmart. “This reflects the private sector’s critical role in trade facilitation reforms. The alliance co-creates strategies with developing countries in a collaborative effort. This requires building consensus among public officials, think tanks and businesses,” Miller says.

Vietnam is among the first countries implementing a trade facilitation strategy developed by the alliance. Projects in Columbia, Ghana and Kenya are in various stages of development. “We are selecting the next group of countries to engage, and Sri Lanka is at the top of this list,” Miller says.

Trade facilitation is expected to improve despite rising protectionism. “Despite even Trump and Brexit, the Trade Facilitation Agreement came into force in early 2017,” Miller points out.

Clearly, many countries are concerned about improving conditions at the border, as it enhances market access for their exports in a competitive, protectionist world. Sri Lanka ratified the agreement in 2016.

According to Miller, Sri Lanka’s internal market complexities are well-documented. There are delays at ports, and Customs procedures are complex and opaque. There is a need for technology, where traders can submit documentation online in advance. Currently, they are running around with tons of paperwork to different border agencies. Protectionism is another issue. Sri Lanka has a certain structural preference for exports. “Every politician loves exports, but you can’t grow exports without imports. The global market tends to work through supply chains, so imports are a crucial component,” Miller argues. An estimated one-third of world trade is intra-firm: companies selling within the group. Without efficient borders, few multinationals will invest here.

Miller is optimistic about Sri Lanka’s ability to improve trade facilitation. “The government seems committed to improving the competitiveness of the economy. Sri Lanka is home to some competitive businesses and a skilled, educated workforce. They will understand and support the reforms,” he says.

GATF doesn’t have a one-size-fits-all

### **A crucial component of improving trade facilitation in Sri Lanka is reforming the archaic Customs code. Influential customs unions are blocking the passage of the new Customs bill**

programme. Nor is the alliance interested in introducing unproven concepts and impossible targets. Each country’s unique political and economic reality gets due consideration. “What the alliance does here will depend on what Sri Lanka wants to achieve. We’re still in the first crucial stage of trying to identify what’ll work in Sri Lanka. Once the governing board makes a decision to engage Sri Lanka with a reforms programme, the alliance can help by consulting stakeholders here to develop a workable reforms strategy. The alliance will also plug knowledge and technical gaps here,” Miller says.

He says the alliance will have no conditions, except to work on an agreed pathway. “In this regard, we’re not like the IMF. The alliance does not provide loans, nor are the costs of our programmes recovered.”

A crucial component of improving trade facilitation in Sri Lanka is reforming the archaic Customs code. Influential customs unions are blocking the passage of the new Customs bill. They’re also making it difficult to deploy surveillance technology. If GATF engages in a trade facilitation project here, the alliance could expect opposition from Customs unions.

“The alliance is familiar with Customs unions. Even in the United States, Customs unions make reforms difficult. The key is listening to what people have to say,” Miller says. “However, it’s important to articulate what the reforms aim to achieve. Speed is a fact of life in the global supply chain. Moving goods into and out of a country fast enough is critical. Sri Lanka is not going to reach a higher level of ambition without that. I’m sure everybody can appreciate this fact, even the unions.”

Fixing problems at the border is a good thing. It stamps out corruption, inefficiency and opaque policy making. It also removes complex and archaic systems that breed corruption. “Political realism has to be at the core of any programme the alliance designs. If special interest groups stonewall the reforms, the alliance will find alternative solutions. There will always be diverse and opposing views. The alliance aims to work around them towards a solution most people can agree with. We strive to always deliver significant results with this approach,” Miller says. ■

# The trials of a new chartered accountant

A top accounting professional shares insights on how newly qualified professionals can succeed in a tough world

Soft skills are necessary to propel careers of young chartered accountants sounds clichéd, but according to Lakshman Athukorala, advisor to the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), it's not emphasized forcefully enough.

"What will take you here, won't take you there; accounting students need to pay heed to this mantra," says Athukorala, who sits on the audit advisory committee of the United Nations Industrial Development Organization. "Qualified chartered accountants may have mastery over a complex and technical subject, but getting a job and building a successful career requires a host of other skills the qualification simply cannot impart," he says.

## The challenges

A newly qualified accountant is definitely technically competent, vibrant and raring to run. But, do they know how to achieve their goals? How many of them are aware of the challenges and expectations of their future employers?

The very first challenge they face once they become a qualified chartered accountant is marketing their skills and gaining employment. Accounting students dedicate their lives to mastering a highly technical subject, spending most of their time at lectures and studying. However, they have little understanding of the world outside, and therefore are not fully prepared for the challenges that lie ahead.

Most young chartered accountants think the first challenge is gaining employment.

"But, the first challenge starts much earlier. It starts with the curriculum vitae, or the CV. Decision makers in companies

are extremely busy people and are not going to indulge 10-15 minutes of their time reading your CV unless you grab their attention and convince them that you deserve to be called for an interview," Athukorala says.

The next challenge is the interview. Facing an interview effectively is a skill the chartered accountancy qualification does not provide. To be successful at an interview requires the right soft skills, like grooming, posture, articulation, a firm handshake, mild manners and eye-contact. At this stage, one should be able to convince the employer that you deserve a shot at being the office newbie.

"When they ask 'Why should we hire you', the wrong answer is 'Because I'm a chartered accountant'," Athukorala quips. "I've sat on many interview panels, and young chartered accountants often struggle with this question; most get their tongues in a tangle."

Decision makers are not interested in your qualification at this point, it's everything else you bring to their table. You need to show them that you understand even a little about their business or industry, and that you are passionate to grow by serving a common interest. You must be convincing, but don't overdo it, people quickly see through acts, especially seasoned professionals and business leaders.

The next challenges come after you get the job. People management skills are critical for discharging one's duties efficiently, where leadership and teamwork are important. You also need to develop a different set of skills to manage crises that can come from within an organization. "You must be able to handle any situation, especially when a volatile economy

throws spanners in the works. You have to be able to adapt to situations fast," Athukorala says.

## Building character

All these skills are not something the accounting qualification equips you with. "This is why it's so important that CA Sri Lanka students engage in social activities or join clubs like the Rotary Club or Toastmasters, read the best global newspapers and magazines, and find inspiration and insights from biographies of famous people," he says. It takes time to hone these skills, so you have to be diligent, especially in developing communication skills.

This approach helps students develop global perspectives and a keen awareness of contemporary society. It builds character. It also gives them a glimpse of just how complex regulations can be, how fickle markets behave or even how technology is changing their very profession. Although lacking deep understanding in any of these, being aware of the challenges ahead makes a world of a difference: their passion for accounting will drive them to be prepared, to adapt.

"Unfortunately, not enough students devote time to develop their soft skills, because they're so focused on gaining mastery of the technical aspects of accounting and auditing. They fail to realize that it's the soft skills that will take them to where they want to go in life," Athukorala says.

CA Sri Lanka incorporates some management techniques in its curricular, and organizes various leadership and social events, but it's not nearly enough. "I believe we can do much more to institutionalise soft skills development within CA Sri Lanka," Athukorala says. ■

# EMERGING OPPORT

CA SRI LANKA PRESIDENT LASANTHA WICKREMASINGHE OUTLINES HOW SMALL AND MEDIUM-SIZED PRACTITIONERS CAN OVERCOME CHALLENGES TO REAP THE DIVIDENDS OF A GROWING ECONOMY



# UNITIES

## FOR SMPs

Sri Lanka transitioning into an upper-middle income economy is opening new opportunities for small and medium-sized practitioners (SMPs), however, exploiting these could be challenging, says Lasantha Wickremasinghe, president of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

SMPs play a critical role in serving the

backbone of the economy—small and medium-sized businesses account for more than 50% of Sri Lanka's GDP and create the most jobs. However, the small size of SMP firms poses several challenges around scale, finding talent, and keeping abreast with rapid developments in accounting and auditing standards, regulations and technology that is shaping the future of the profession worldwide.

Wickremasinghe, a partner at B.R. De



Silva & Co. Chartered Accountants, a reputed SMP, says that despite facing many challenges, SMPs can still avail themselves to the emerging opportunities by taking the time to update themselves content-wise by merging with other firms and joining global professional affiliations.

Excerpts from the interview are as follows:

#### Why are SMPs so important?

Over 50% of GDP is generated by small and medium-sized enterprises, which also create most of the jobs in our economy. If these SMEs grow, it lifts the entire economy. Small and medium-sized enterprises typically rely on SMPs for advice and services they can trust. This is why it's crucial that SMPs provide credible services to their clients. This could lead to many benefits, but let me touch on two:

### SMPs need to price their services appropriately, taking into consideration the risks that the practitioner undertakes in providing services to clients in a highly regulated business environment, and other risk considerations like fraud.

First, the professionalism exuded by SMPs during the course of their work can spill over or rub off on small and medium-sized businesses. They will be encouraged to be more professional and adopt better processes, controls and governance, which will contribute to business growth. Second, a credible SMP practice builds trust and will minimize the expectations gap of clients who can then focus more on their businesses and growth.

#### What new opportunities do you see emerging for SMPs?

The economy is transitioning into a period of high growth, and there'll be several emerging opportunities for SMPs. Forensic accounting, business process outsourcing (BPO), business

management consultancy services including business planning, and consultancy on tax compliance and information technology (IT) control audits would be emerging areas that have great potential for SMPs. There'll be several non-audit services that SMPs can diversify into such as review, compilation and agreed-upon procedure (AUP) engagements. CA Sri Lanka has already co-branded and made available the IFAC's brochure titled "Choosing the Right Service: Comparing Audit, Review, Compilation and Agreed-Upon Procedure Services" for the benefit of SMPs. The audit manual published by CA Sri Lanka for SME audits and the series of two-day workshops on how to use the manual and templates will be of immense value for SMPs to upgrade their audit programmes. Furthermore, having identified practical difficulties in complying with the requirements

acquire larger corporate clients. We're also encouraging them to enter into strategic partnerships with international affiliations, so they can stay abreast with the latest developments in the profession.

#### What challenges do SMPs face today?

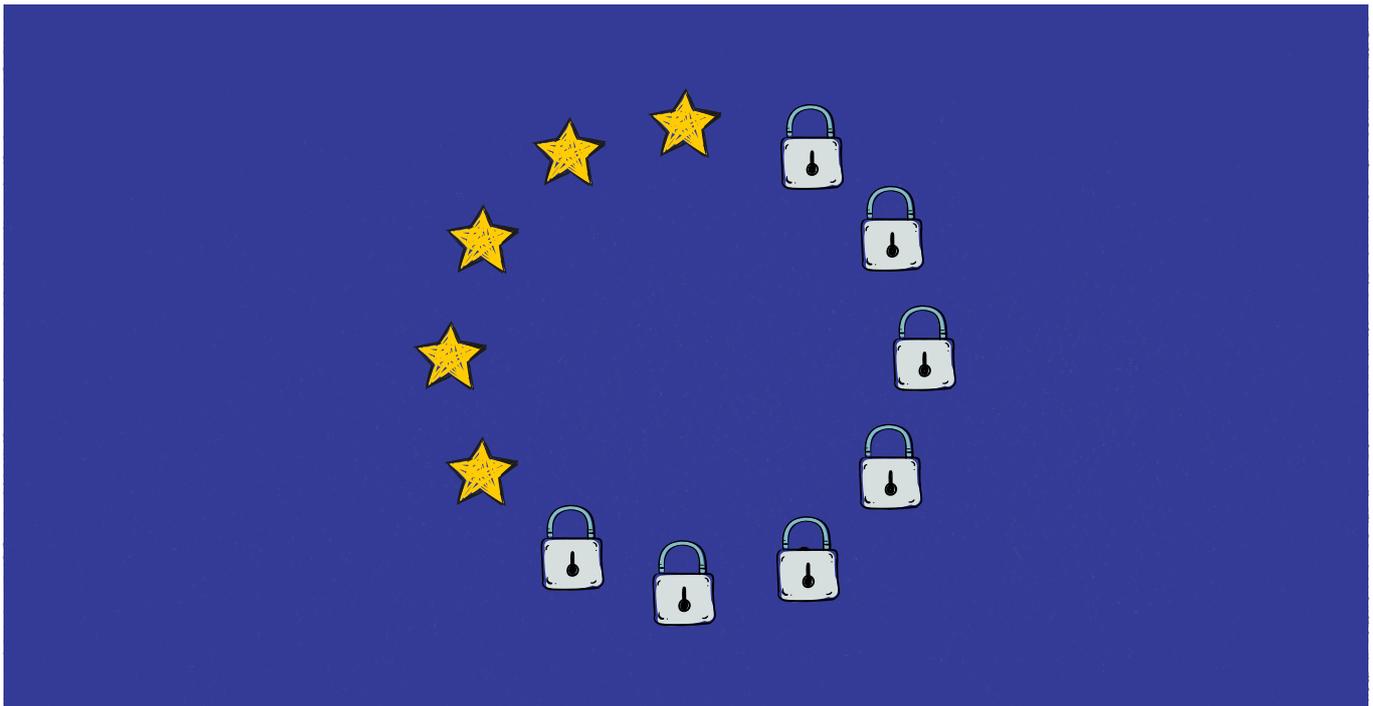
SMPs need to possess up-to-date knowledge on accounting and auditing standards and related pronouncements. This can be challenging for several reasons: First, small and medium-sized businesses may find it a challenge to meet some of the requirements expected of them since the harmonization of Sri Lanka's technical standards with international standards, so it's critical that SMPs adopt these standards as seamlessly as possible without disrupting their clients' normal business operations. Second, SMPs may not have the resources or processes in place to absorb and adopt new developments to technical standards in a timely manner, which leads me to the third challenge: time management. It's critical that SMPs allocate sufficient time to update themselves on changes that affect the accounting profession as and when they happen.

SMPs also face several administrative challenges. Recruiting and retaining talent is probably the biggest challenge SMPs have today. Most SMPs are single practicing member firms and may even experience times without qualified assistants, resulting in ineffective time utilization of partners. Pricing is another challenge due to tough competition and increasing costs, and results in pressure towards the lowering of audit fees. SMPs need to price their services appropriately, taking into consideration the risks that the practitioner undertakes in providing services to clients in a highly regulated business environment, and other risk considerations like fraud. Attracting new clients and the retention of existing clients could also be perceived as a big challenge for SMPs.

The way forward is to ensure that SMPs are trusted service providers of SMEs in order to survive in the long run. ■

# GSP PLUS: UNLOCKING THE GAINS

DUTY-FREE ACCESS IS BENEFICIAL, BUT NOT ENOUGH TO GROW EXPORTS TO EUROPE



**G**SP Plus duty-free concessions will benefit Sri Lankan exports to Europe, but the immediate impact will be limited – only large clothing exporters are likely to gain – and growth will be subdued because manufacturers aren't ready to meet rising demand and comply with stringent EU quality standards and safety rules.

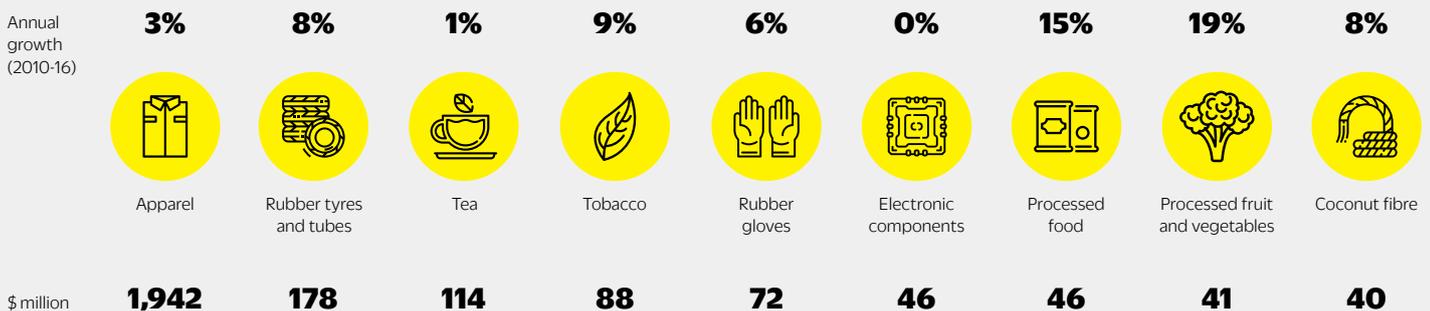
Clothing, coconut oil, fish, fruits and vegetables are some of the exports to Europe likely to make immediate gains from GSP Plus with EU import duties down to zero from an earlier 9-18%. In 2016, Sri Lankan exports to the EU amounted to \$3.3 billion (31% of total exports).

The immediate impact of duty-free access to Europe will likely be a 15% increase in exports to \$3.8 billion, or a \$480 million gain, according to the Institute of Policy Studies (IPS), an economic policy think tank. But, this is not a transformational impact, with export earnings as a share of GDP declining for over a decade.

According to IPS, clothing exports dominated by a few family controlled firms will account for 90% of the \$480 million immediate gain. Clothing accounts for 60% of Sri Lanka's total exports to Europe and is the highest earner at \$1.9 billion in 2016. The second-highest export to Europe is rubber tyres, at only \$0.2 billion, a tenth of clothing exports. This highlights the dominance and success of the clothing industry. Apart

## TOP EXPORTS TO EUROPE IN 2016

These exports are likely to enjoy immediate gains from the reinstatement of GSP Plus



from clothing, the rest will collectively gain just \$55 million immediately from GSP Plus, according to IPS.

Most exporters are not in a position to reap the benefits of GSP Plus. "Duty-free concession is just one aspect of growing exports. We haven't ticked the other boxes for export growth, like capacity and quality," says Indira Malwatte, chairperson of the Export Development Board. Duty-free access will not guarantee new orders or better prices. Any immediate gains will depend on exporters' ability to negotiate better terms, she says. Large clothing exporters are better placed than anyone else to negotiate better terms, but it will be tough because the industry is margins-driven.

The challenge for the rest is two-fold: Firms already exporting to Europe are not prepared to meet additional demand, and those firms aspiring to enter European markets to benefit from zero duty will have to deal with costly compliance. Processed and fresh food exports to Europe have grown 15% each year over 2010-16 (to \$87 million). That's five times faster than apparel. Demand is growing even without GSP Plus. "Europeans will buy all the fresh fruit like pineapples that we can sell them. But, we can't grow enough. There's not enough land," says Dawn Austin, managing director of Nidro Supply, an exporter.

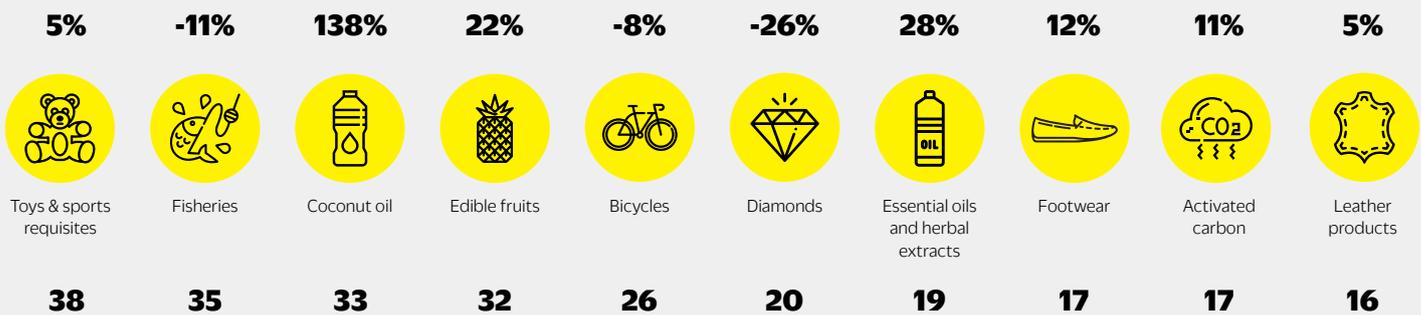
Large firms, like listed Hayleys, are buying land in Bangladesh and Myanmar to grow fruits and vegetables for processing here. Small and medium-sized firms don't have the money to do this. For exporters aspiring to enter European markets, the certification process is long and expensive. So is compliance. Exporters need to maintain records of their produce at every stage of production, from soil preparation to final delivery. Minute details need recording, like who picked what fruit from which patch and when. The Export Development Board has promised to part-finance the certification for small and medium-sized businesses.

Virgin coconut oil is another booming export to Europe, growing 138% annually over 2010-16 (to \$33 million) even without GSP Plus. "Demand for virgin coconut oil is growing," Malwatte says. However, coconut production here is inadequate. The government wants to allow coconut imports to be processed here for export. This will present opportunities for new entrants, but quality is critical. "The Japanese loved our virgin coconut oil, but they suddenly stopped buying," Malwatte says. "Why? Because unscrupulous exporters were selling them white coconut oil!" Virgin coconut oil is golden.

Fish exporters are the biggest beneficiaries of GSP Plus. Earlier, fish exports were subject to 18.5% duty at European ports. The duty is now down to zero. "The sad news is, there's no fish," says Channa Weerathunga, general manager at Global Fisheries. Over-fishing in Sri Lankan waters has taken a toll on fish stocks.

Fish farms account for more than 50% of the global commercial stock, Weerathunga says. "In Sri Lanka, it's less than 0.1%," he says. A public-private project for a 3,000-acre fish farm in Mannar, on the west coast of Sri Lanka, is on the drawing board. "The government wants fish exports to grow five-fold to \$1.5 billion over the next few years. To do this, we will need at least 10 fish farms like this. But, finding land is an issue," Weerathunga says. Tourism and conservation needs already compete for limited coastal land.

The fish export business is a good example of what can go wrong with GSP Plus. Fish exports to Europe grew 24% annually to \$115 million over 2005-10 when Sri Lanka first enjoyed GSP Plus status. Exports fell to \$85 million by 2012 when Sri Lanka lost GSP Plus, but recovered quickly. However, since then, exports gradually declined to \$36 million by 2016 because of an EU ban on Sri Lankan fish exports. This was due to illegal fishing methods like bottom trawling, mostly by foreign



Source: Trademap.org

vessels, in Sri Lankan waters. The EU lifted the ban in 2016 after Sri Lanka changed its maritime laws to deal with illegal fishing and depleting stocks.

“When we first enjoyed GSP Plus, we didn’t think much about EU requirements and conditions around fishing. We let foreign vessels poach unhindered. Had we taken action back then, we could have sustained exports even after we lost GSP Plus,” Weerathunga says.

**Time is running out...**

Sri Lanka is not the only country enjoying duty-free access to Europe. Eight other countries (Armenia, Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, Paraguay, the Philippines) enjoy GSP Plus duty-free concessions for over 6,000 goods. Forty nine other countries enjoy duty-free access for everything except arms, under a separate scheme for poor countries.

Sri Lankan exports clearly have to deliver a distinct value proposition to compete in Europe, but there is not enough time.

Sri Lanka’s GDP per head at \$3,800 in 2016 could reach \$4,100 by 2018 if annual economic growth is around 5%. This will place Sri Lanka among the upper-middle income category of countries. The EU withdraws GSP Plus three years after a country reaches this stage. So, Sri Lanka may lose GSP Plus around 2021, according to the Joint Apparel Association Forum (JAAF), the clothing exporters body. The Export Development Board estimates that GSP Plus could be withdrawn in 2024. “Either way, we have a lot of work to do, and we don’t have a lot of time,” Malwatte says. “Forget GSP Plus. Improving competitiveness is the best way forward. If we can do that, exports will grow with or without trade concessions,” she says.

Sri Lanka first enjoyed GSP Plus concessions in 2005-10 before the European Commission withdrew it, dissatisfied with the human rights record here. During this period, clothing exports to Europe grew 11% an-

nually, slowing to 3% over 2010-16. Had it maintained the faster growth rate, apparel exports to the EU would have amounted to \$4.1 billion in 2016, and not \$1.9 billion that it actually made that year.

Large clothing exporters like Brandix, Hirdaramani and MAS have moved on. They invested in Bangladesh, India, Vietnam and Africa for scale, cheap labour and proximity to raw materials. In Sri Lanka, they invested in talent, innovation, research and development. Sri Lanka remains the innovation hub for these firms who specialise in sophisticated clothing mostly for mid-to-high-end consumers in Europe and the US. The reinstatement of GSP Plus promises exciting times ahead. According to JAAF, the clothing industry will have to invest up to \$1 billion to expand capacity to meet new demand arising from GSP Plus.

“Exporters have a lot to learn from the apparel sector,” Malwatte says. However, small and medium-sized clothing makers worry that they’ll miss an opportunity. Clothing stitched from Chinese fabrics don’t get duty concessions under GSP Plus. “This our biggest challenge. Since we lost GSP Plus in 2010, the fabric import base moved to the far East,” says Yohan Lawrence, deputy chairman of JAAF. The cost dynamics of importing fabrics from South Asia, which the EU allows, is not compelling. Also, investors are not likely to invest in a fabric mill here, given that Sri Lanka will no longer be eligible for GSP Plus in a few years, Lawrence says.

For most exporters, GSP Plus is more a lifeline rather than an opportunity to grow. “It’s all about survival,” says Ranmal Jayasinghe, president of the National Chamber of Exporters. He concedes that the duty-free concession is only one aspect of many that need to fall into place for sustainable exports growth. “Capacity, sourcing raw materials, branding, marketing, research and development are challenges we continued to grapple with,” he says. ■

# Sri Lankan fintechs' mantra of collaboration

Financial tech ventures are challenging legacy banks and insurance companies everywhere, but in Sri Lanka, these businesses have a different strategy

The rapid development in financial technology services is threatening to make retail and consumer banking irrelevant and large investment banks redundant. Financial technology ventures, called Fintechs, are also making in-roads into the insurance industry.

In the retail banking front, a recent Viacom study reported by Forbes magazine found that 73% of millennials (people born after 1984) would rather handle their financial services needs with Google, Amazon, Apple, PayPal or Square than with a bank. Goldman Sachs Global Investment Research's Future of Finance report says that 33%

of millennials believe they will not need a bank in the near future.

Global investments in fintechs have soared from \$4 billion in 2013 to \$12 billion in 2014, with growth rocketing to 200% in 2014 from 63% in 2013, global consulting firm Accenture said in a 2015 report. A fintech called Lending Club, an online lending service provider, raised \$865 million on the New York Stock Exchange in 2014. It was valued at \$8.5 billion, and its IPO was the biggest for a technology company that year. Companies like these are raising questions for banks and insurance companies. In India, Coverfox, an online insurance aggregator, has raised more





**Global investments in fintechs have soared from \$4 billion in 2013 to \$12 billion in 2014**

than \$16 million in funding, selling over 500 policies a month in 2015, and venture capital investors gave US-based PolicyGenius more than \$20 million. It had 800,000 users by 2015.

Analysts are unclear whether this presents more of a challenge or an opportunity, but established financial services players are starting to take bold steps to engage with emerging innovations. Big global banks like Bank of America, Barclays, Citi Bank, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Intesa Sanpaolo, JP Morgan, Lloyds Banking Group, Morgan Stanley, Nationwide, RBS, Santander and UBS have invested in fintechs in order to adapt to new technologies.

Fintech is a nascent business in Sri Lanka. There are a few fintechs here whose modus-operandi is to collaborate with, not disrupt, legacy banks and

insurance companies. Here are four fintechs in Sri Lanka that emerged over the last few years:

### MoneyWorkz

This is Sri Lanka's first online banking aggregator, and aims to grow the market by making it easier for a large unbanked population to make sense of complicated, intimidating and over-branched banks.

According to Central Bank data, there are 30 bank branches per 100,000 people in the population—add the branches maintained by finance companies, and the number increases to 37. Either way, the number of branches is higher than 24 in the OECD, a club of mostly rich countries. According to World Bank data for 2014, in high-income countries,





**The online platform will allow people to compare credit card features, offers and fees of different issuing banks. But, people will not be able to compare every credit card product.**

nearly 50% of the adult population saves money in a bank. In Sri Lanka, it's at 30%. Low penetration of banking is fundamentally a matching problem. Banking is too complicated.

Despite the wide range of banking products available, people are not discovering the financial products that best suit their needs. Many seek family or acquaintances' advice on where and how to bank. Often, their employers decide for them. Information is also difficult to gather and compare.

"We're not a bank aggregator," the startup's founding CEO Jayamin Pelpola is quick to point out. "We are about enabling smart money decisions by using data analytics to pick out products that best suit lifestyles and incomes." MoneyWorkz has completed a seed funding round, but Pelpola declined to divulge the investment. MoneyWorkz will go online in the fourth quarter of 2017, starting with credit cards—savings and lending products will be included in stages, followed by non-banking financial products such as mutual funds and real estate.

The online platform will allow people to compare credit card features, offers and fees of different issuing banks. But, people will not be able to compare every credit card product. A MoneyWorkz algorithm will analyse basic information provided by an applicant – where they work, salary range and what they're most likely to spend on – to show only those options that best fit their profile.

Banks peddle credit cards with high limits or personal loans on people who don't really need them. Around 80% of active credit card users in Sri Lanka either settle only the minimum payment each month or pay an amount less than their monthly credit card bill, piling up more interest on unpaid dues. Sometimes, people learn about financial products the hard way. MoneyWorkz has a feature that lets people convert their outstanding credit card balances to a low-interest bank loan. "We're doing this so people don't lose sight of the usefulness of financial products like credit cards. Our research shows that the smart use of a credit card is equivalent to earning an additional two

months' salary. But, does everyone make use of it that way?"

MoneyWorkz will also host a customised deal discovery platform, curated from all banks' credit card offers. According to him, banks spend around Rs500 million annually to text-bomb customers about their offers.

Globally, banks are losing business to fintechs. But, MoneyWorkz is not competing with banks. "We will reduce banks' acquisition costs per new customer by more than half, and reduce the lending risk as well," he says.

"Banks have an opportunity to be more efficient in capital adequacy because they won't have to allocate capital to attract customers."

Banks were also concerned that the online aggregator would merely shift existing customers around. "Banks will only pay the platform fee for new accounts that we generate. What we're also trying to do is increase the size of the pie by improving financial product penetration, so banks won't be chasing those who are already banked," Pelpola says.

## PAYable

**P**AYable is a free mobile app paired with a free Bluetooth card reader that enables merchants to accept credit and debit card payments from their customers. PAYable, recently valued at Rs1 billion, can be paired with any Android or iOS smartphone or tablet to effectively convert it into a secure, flexible and simple-to-use mobile Point-of-Sales (POS) solution.

"We are committed to driving a revolution in cashless payments. We believe the future includes a balance between older methods of payment such as cash and cheques, rapidly evolving forms of well-accepted methods like cards, and emerging methods like e-wallets and other modes of peer-to-peer online (cardless) payments. Our technology and business strategy encompass thoughtful considerations of all these factors, as well as what top fintechs are doing to digitally transform banking and payments," says CEO Yohan Wijesiriwardane.

PAYable launched its first devices in June 2016, has since grown the number of Sri Lankan merchants accepting card payments by 25% in just over a year, and has directly facilitated transactions in excess of Rs750 million.

Having partnered with three of Sri Lanka's largest private sector commercial banks and backed by substantial investments from Clarkeview Investments Limited, PAYable is expected to expand its network of merchants to 20,000 by the end of 2018 and 100,000 by 2020.

PAYable uses security protocols like the PCI DSS Guidelines, a global security standard developed by VISA, MasterCard and other major card providers.

## InsureMe.lk

InsureMe.lk allows buyers to compare motor insurance policies offered by insurance companies online.

After filling in the vehicle's estimated market value, make and model, fuel type, year of manufacture, usage (personal, hire or rent), and no-claim bonus record, the platform lists the premiums that each of the insurance companies charge. InsureMe also provides other details like types of accidents the policy covers, the value of third-party property damage it will pay for, and additional benefits like reimbursing towing costs, and airbag and accident-related personal injuries.

InsureMe will include other general insurance policies like home, fire and health insurance by the end of 2017, and add more insurance vendors to the list. Life insurance will be included later. It's another species that requires a different approach. For one thing, buyers have to undergo a medical exam.

The startup was launched in 2017. The insurance industry raised over Rs130 billion in premiums in 2016. That's the size of InsureMe's potential market, and its growing.

The startup is a licensed insurance broker and can sell insurance policies online. InsureMe will earn commissions from insurance companies for selling their products. Broker com-

missions can differ from the insurance company to the type of insurance. The industry regulator, Insurance Board of Sri Lanka, has capped the commission rate at 15% for motor, property and fire insurance.

InsureMe was co-founded by Vipula Dharmapala, a former CFO of an insurance company, and his two friends Dilshan Perera and Indika Prematunga, also a former CFO.

"We realised what was missing in Sri Lanka's insurance market," Perera says. "People need an unbiased independent explanation about insurance and the options available to them," he explains.

Insurance penetration is low in Sri Lanka compared to other countries in Asia. The industry here makes up 1% of GDP. In India, insurance accounts for 4% of GDP, and more than 5% in Thailand. However, demand for insurance will grow as the economy develops, people become savvier and incomes rise. InsureMe is sitting on a gold mine.

The insurance industry here is small, with less than 5% of Rs10.6 trillion banking sector assets. Twenty nine insurance firms operate here: 14 offer only general insurance, 12 firms specialise in life insurance and 3 firms sell both types. General insurance premiums amounted to nearly Rs70 billion in 2017. Motor insurance made up 78% of this, or Rs55 billion. If InsureMe acquires 10% of the motor insurance business, it could potentially earn around Rs825 million, generously assuming that they're paid commissions at 15%. There's more. Private hospitals earn Rs48 billion annually. If InsureMe channels 10% of this, that's Rs720 million in revenue. Including motor insurance, that's Rs1.5 billion in revenue—and the startup employs just 20 people, and the founders say they don't need to expand staff to grow.

InsureMe will benefit insurance companies as well.

For insurance companies, large branch networks and staff come at a cost. The industry deploys over 45,000 people from over 1,800 branches to sell insurance directly to clients, bypassing brokers. Dharmapala says some insurance companies quote

lower premiums on InsureMe. "This is probably only because it brings down their acquisition costs," he says.

During its first three months, InsureMe chalked up over 50,000 online visitors. In May, the startup was reporting over 500 daily visits, mostly those comparing health insurance policies. The company is not disclosing how many of these visits converted into genuine sales. Non-disclosure agreements signed with potential investors prevent the company from doing so. That's an indication that the startup is being taken seriously.

## Save Your Monkey

Saveyourmonkey.com allows consumers to compare multiple insurance quotations and procure a policy immediately, while SYM Insurance Brokers facilitates the entire process. The service offered by Save Your Monkey doesn't just involve helping customers to compare and buy insurance, but extends to the point of delivering policy documents to the doorstep of the customer.

The startup currently provides comparisons for vehicle and travel policies online. It will offer comparisons on a number of other insurances offline, while migrating other general insurances, such as housing, to the online platform in the near term.

As part of the company's value-enhancing proposition, Save Your Monkey has partnered with a number of leading third-party service providers like Laugfs Car Care, Autodrome and Uber to provide these value additions to the company's clientele.

A second initiative that is expected to be launched by the company is the Save Your Monkey Roadside Assistance application that will give added assurance to customers by providing vital services during a time of crisis. This application will allow vehicle users to receive help when met with an accident or faced with vehicle failure at the simple click of a button. Additionally, the company will also maintain an in-house call centre that customers can access around the clock. ■

# APPS THAT GET STUFF DONE

There are countless productivity apps and tools out there today – we help you choose the best

It's no longer in doubt that the smartphones and tablets that we carry everywhere we go can be powerful personal assistants and productivity aids. In the past, companies that frowned on employees accessing official data on private devices now understand that teams collaborate better this way. From note taking apps, to-do lists and office suites to calendars, plenty of cloud-based apps can help improve productivity at a modern office.



## A productivity essential CCLEANER (formerly called Crap Cleaner)

No matter how many productivity apps you may have, unwanted files saved on your devices will cause lags and generally render any gadget unproductive. CCleaner is a must-have app that is as synonymous with system cleaning as Google is with search.

One of the oldest system cleaners in the app world, first launched in 2005, CCleaner can delete temporary or potentially unwanted files left by certain programs, as well as browsing history, cookies, recycle bin, memory dumps, file fragments, log files, system caches and various other data. CCleaner will make sure your device runs smoothly to ensure greater productivity.



## The whiteboard Replacement - ASANA

Asana is the whiteboard of yesterday. The app, which is more “productive” when used on a desktop, helps teams keep track of what needs to get done day-to-day, while maintaining visibility and accountability.

Companies use Asana to optimise their work day, with designated tasks and the project's status visible to the entire team. Asana also eliminates the need for email, with file sharing possible on the platform.

**Alternative: Trello, Basecamp**



### The granddaddy of them all **EVERNOTE**

One of the world's most widely used productivity apps, Evernote is a customizable app that lets you take notes, and organize and archive important information. The 'notes' on the platform can be in the form of text, a webpage, photograph, voice memo, etc. The notes can also have file attachments. Evernote will archive the information for you to draw up as and when required - it's all your important information at your fingertips!

Special mention must be made to Evernote Scannable, which can scan through stacks of pages and turn them into collated PDFs. It also works wonders on business cards. Scannable auto-detects edges and produces quality images, and connects with Evernote for easy storage.



### Mass social media updates **HOOTSUITE**

If your company is 'going digital', you would want to maintain a consistent presence on all forms of social media. Unless you have a designated team to handle this for you (and even then), Hootsuite is the platform for you.

Hootsuite is the one-stop shop to manage all your social media accounts. It allows you to update Facebook, Twitter, LinkedIn, YouTube and Instagram all at once, in real time. It also lets you schedule updates, and monitors replies and feedback.

*Alternative: buffer, tweetdeck*



### Email is outdated **SLACK**

Emails are out; Slack is in! Slack is a messaging platform created for businesses, to facilitate conversations (and banter, as we use it for as of late) and discuss ideas among team members who may not always sit in the same office. Slack can be used to chat in real time, so you don't have to shout across rooms, or act as a reminder of a task that has been assigned to you.

Slack can also be integrated with a host of other productivity apps and services, like Asana, to provide seamless integration throughout your organisation.

*Alternative: Azendoo, Bitrix24*



### To-do lists **REMEMBER THE MILK**

Remember the Milk is an online to-do list and task management system. Created in 2004, the app was re-launched this year with added features to improve productivity.

Remember the Milk allows you to create multiple task lists, which can be edited at any time, so keeping track is efficient and hassle-free. The app can be synchronised on multiple devices, allowing you to remain on top of your work on-the-go. It can also be integrated with Gmail, Google Maps, Microsoft Outlook and other such services.

*Alternative: TODOIST, Any.do*

## SPECIAL MENTIONS



### **GoodReader**

This is an app available on iOS that lets you view documents in different formats, including .doc, .pdf and .xls.



### **Wunderlist**

The app, which works on a variety of platforms, lets you share your to-do lists with others, letting you keep track of what you or your team need to get done.



### **SwiftKey**

This app is a custom keyboard for Android in particular, but is also available on iOS. SwiftKey lets you save time typing by swiping your finger around the keyboard instead of hitting each individual letter.



### **Dropbox**

This is a web-based file hosting service that lets you create a special folder on your computer, which can then be synchronised to be accessible on all your devices and the Dropbox website.

# FIVE TRENDS TO WATCH OUT FOR IN SRI LANKA'S CONDO MARKET

Sri Lanka's condo market is booming, making some question if it is heading for a bust. Here's what you need to know...

Real estate is a prophetic exercise. The ongoing Cambrian shift in Sri

Lanka's real estate market has given way to a theatre of speculation and opinion. In the initial years of the post-war economy, condominium projects were rife despite the low interest regime and market opportunity. But, things have changed. Interest rates have risen, and now, more and more developers are focusing on projects that cater to the burgeoning middle class. The

allure for real estate is understandable. After all, it's a popular and reliable asset class that has little price volatility.

Here are some major trends real estate consultants, leading agents and property developers think deserve to be watched in Sri Lanka's condo market.



## 1 Luxury apartments may face a demand-supply imbalance:

Contradictory views of the Central Bank and condo developers about the viability of prices in the expensive condo market renewed the debate on whether Sri Lanka's luxury condominium market is inching towards a bubble. "There is no established 'slowdown' in the luxury real estate market," says Jones Lang LaSalle (JLL) Lanka Managing Director Steven Mayes.

A concern is the pace at which new apartments are being completed, and the possible mismatch with short-term demand. Apartments could end up unsold for longer. "This can be corrected by a slower pace of construction that allows demand to catch up," says Mayes. JLL estimates 3,740 condos due to be completed over the next two to three years. Premium condo developments by Altair and Shangri-La have sold more than two-thirds of available units.

## 3 Prices will rise at a slower rate:

Low interest rates after the war ended spurred renewed interest in real estate as an investment asset class. For the first time in four years, the Central Bank increased interest rates in mid-2016, and followed it with three more hikes in the subsequent months.

Construction costs have risen, but demand remains strong. "In the middle market sector, demand continues to outpace supply," says Mayes. "So, prices will continue to rise, but at a slower rate than over the past 12 months."

## 2 Cashing in the middle:

Real estate developers are shifting lanes to cash in on the growing middle class's demand for well-located condos close to the commercial capital. JLL, a real estate consultancy firm, says demand for upper-middle and middle-income apartments - classified as ones ranging from Rs26,000 to Rs35,000 per square foot - is growing.

Rising land prices in Colombo and its suburbs have made condos an attractive option for middle class families who can't afford land to build houses, says real estate agent Chandaka de Soysa of Acquest. Apartments offer ease of access to schools, entertainment venues and central road networks, which are key concerns for middle-class homebuyers who consider

## 4 Increasing foreign inflows to real estate:

Currently, residents and expatriate Sri Lankans buy 90% of condos. Developers are seeking to sell more new apartments to buyers from overseas, taking advantage of Colombo's growing attraction as South Asia's most cosmopolitan city.

To attract more foreign buyers, the government's 2017 budget proposed allowing foreign buyers to borrow from a local bank up to 40% of the apartment's value. According to Mayes, the relaxation of barriers has already garnered interest from India, China and others in East Asia.

the commute to work, school and amenities. Prime Lands, the country's largest middle income-focused real estate developer, forecasts demand for at least 5,000 condos per year. Recently, Krishan Balendra, an executive director at John Keells Holdings who oversees the group's leisure and property sector, said the country's annual condo sales at 2,000 units was a 'small number', indicating that there is greater potential for growth in the sector, similar to the experience in cities like Bangkok and Kuala Lumpur over the last decade.

## 5 Port City to sling-shot Sri Lanka as a premier real estate destination:

The Port City, a new downtown or Colombo built by reclaiming an area of land the size of Monaco from the Indian Ocean, is expected to add 21,000 apartment units upon its completion. "It's going to be a game-changer for Colombo," says Mayes.

The 269 hectares of reclaimed land is expected to attract \$15-20 billion in investment. High-net-worth individuals from the region, including India, Pakistan and Bangladesh, will be the main target for real estate investments in the Port City, according to industry experts. "It will be a catalyst to propel Sri Lanka up global real estate indices." ■

# What you need to know about **Cryptocurrency**

Cryptocurrency has become a global phenomenon; and despite their complexity, banks, accounting firms, software companies and governments are getting increasingly interested in them



## **What is cryptocurrency?**

Cryptocurrency is a form of digital money that is designed to be secure and anonymous. It is a currency associated with the internet that uses cryptography, the process of converting legible information into an almost uncrackable code, to track purchases and transfers. It is created and stored electronically in the blockchain. Encryption controls the creation of monetary units and verifies the transfer of funds.

## **How does cryptocurrency work?**

Cryptocurrency lets users make secure payments and store money without the need to use their name or go through a bank. They run on a distributed public ledger called blockchain, which is a record of all transactions updated and held by currency holders.

## **Why use cryptocurrency?**

Cryptocurrency is known for being secure

and allowing anonymity. Transactions in cryptocurrency cannot be faked or reversed, and there tends to be low fees, making it more reliable than conventional currency. Its decentralised nature means it's available to everyone, whereas banks can be exclusive in who they will allow to open accounts.

As a new form of cash, cryptocurrency markets have been known to “take off”, meaning a small investment can become a large sum overnight, but it also works the other way. Therefore, those who are considering investing in cryptocurrency should be aware of the volatility of the market and the risks they take when buying.

Because of the level of anonymity it offers, cryptocurrencies are often associated with illegal activities, particularly on the dark web. Therefore, users should be careful about the connotations when choosing to buy these currencies as well.

### What is the future of cryptocurrency?

The market of cryptocurrencies is fast and wild. Nearly every day, new cryptocurrencies emerge, the old die, early adopters get wealthy and investors lose money. Every cryptocurrency comes with a promise, mostly a big story to turn the world around. Few survive the first months, and most are pumped and dumped by speculators and live on as zombie coins until the last bag holder loses hope ever to see a return on his investment.

#### Some of the most common cryptocurrencies include the following:

**Bitcoin:** Bitcoin was the first and to-date the most commonly traded cryptocurrency. It was developed by Satoshi Nakamoto, a mysterious figure who developed its blockchain in 2009. It has a market capitalisation of around \$45 billion as of July 2017.

**Ethereum:** Developed in 2015, ethereum is the currency token used in the ethereum blockchain, the second most popular and valuable cryptocurrency. Ethereum has a market capitalisation of around \$18 billion as of July 2017. However, ethereum has had a turbulent journey. After a major hack in 2016, it split into two currencies, while its value has, in recent months, reached as high as \$400, but crashed briefly to as low as 10 cents.

**As a new form of cash, cryptocurrency markets have been known to “take off”, meaning a small investment can become a large sum overnight, but it also works the other way.**

**Ripple:** Ripple is another distributed ledger system that was founded in 2012. Ripple can be used to track more kinds of transactions, not just of the cryptocurrency. It has been used by banks including Santander and UBS, and has a market capitalisation of around \$6.3 billion.

**Litecoin:** This currency is most similar in form to bitcoin, but has moved more quickly to develop new innovations, including faster payments and processes to allow more transactions. The total value of all Litecoin is around \$2.1 billion. ■

#### How it works

Someone requests a transaction



The requested transaction is broadcast to a P2P network consisting of computers known as nodes



The network of nodes validates the transaction and the status of the user using known algorithms



A verified transaction can involve cryptocurrency, contracts, records or other information



Once verified, the transaction is combined with other transactions to create a new block of data for the ledger



The new block is then added to the existing blockchain in a way that is permanent and unalterable. The transaction is then complete

Source: <https://blockgeeks.com/guides/what-is-cryptocurrency/>

#### Cryptocurrency

- Has no intrinsic value, in that it is not redeemable for another commodity such as gold
- Has no physical form, and exists only in the network
- Its supply is not determined by a central bank, and the network is completely decentralised

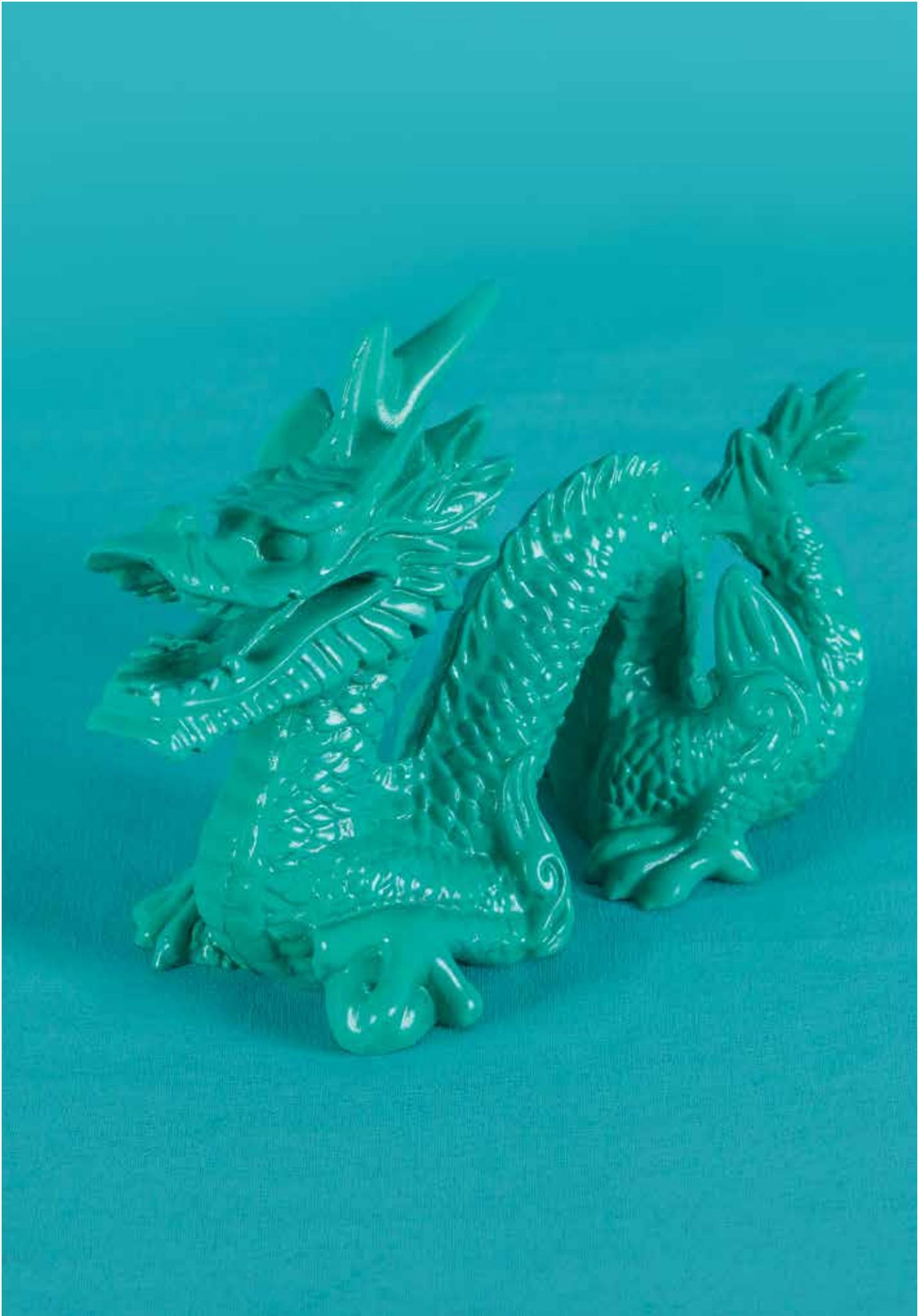
Sources: <http://www.telegraph.co.uk>, <https://blockgeeks.com>

# Dealing with the Dragon

The only regional trade block Sri Lanka is part of is the pathetic one covering South Asia

The Sinhalese capital's fourteenth century defensive shift to the West coast offered only a brief respite. It had been intermittently warring the expansionist northern Tamil kingdom that sought the riches of cinnamon, the island's then main export. However by the early fifteenth century, geopolitics took a major shift and the threat to the Southern kingdom came not from its pesky Northern enemy but from distant China, which under early Ming emperors sailed great fleets of junk to Indian Ocean ports demanding tribute and obedience to the emperor.

Chinese admiral Zheng He was after the dalada, the tooth relic of the Buddha, to take back as a tribute in his first visit to the island in 1405. Failure to seize the relic and the treatment he received aggrieved the admiral who on his return five years later seized and took back to China the Sinhalese king, Vira Alakesvara, his queen and some



of the kingdom's notables as prisoners.

China's ascent - now as in the fifteenth century - can leave kingdoms and nations that cross its path intimidated or worse. Now, Chinese expectations of tribute and obedience are subtle though still central to its economic aims for its vast population. A trade boosting \$40 billion Maritime Silk Road to link ports, raw material supply chains and economic zones in Asia and Africa with China was announced in 2013. Sri Lanka's Hambantota port built with Chinese aid - located by the main East-West shipping route and a Chinese-owned container terminal at Colombo's

## China offers Sri Lanka a far bigger opportunity than the short term gains of exporting more readymade clothes and tea.



hub port - are key links of this silk route.

Sri Lanka is now a point on the Chinese maritime Silk Road that brings raw material and commodities to China from Africa, the Middle East and the West. For China - the world's factory - the route is the way out for manufactured goods to the world.

China asserting itself in the world isn't as brusque as in the fifteenth century and presents an opportunity for Sri Lanka's economic advancement. In September 2014, before the government change, Sri Lanka signed an MOU, launching technical-level negotiations for a Sri Lanka-China Free Trade Agreement. For Sri Lanka which is an economy 150th the size of China, freer trade should be particularly attractive. There are a number of reasons for this.

First and immediately, China offers Sri Lanka's export industries - particularly tea and readymade clothes - a significant new market. Sri Lanka exports \$22 million in tea (1.5% of tea exports) and an equal value in readymade clothes (0.5% of readymade clothes exports) to China. Tea and readymade clothes are taxed at 15% to 17%, respectively, by China.

Not only are the two economies dissimilar in size but their relative importance to each other as trade partners is also

glaring. For Sri Lanka, which in 2013 imported \$3 billion in Chinese goods, it's an important trade partner. However, for China, the small island is insignificant, absorbing just 0.15% of its over two trillion dollars of annual exports. China won't worry about being swamped by Sri Lankan products. Sri Lankan consumers seem to already prefer value-for-money Chinese imports. Sri Lanka's only concern will be that import tariff revenue will decline if Chinese imports yielded less revenue.

The evidence of small economies that have FTAs with China is encouraging. Pakistan and New Zealand increased exports to China by four times as a percentage of total exports in less than eight years after signing an FTA. Imports from China as a percentage of total imports also increased, but by far less. Sri Lanka should also be able to replicate their success.

A free trade deal between unequal partners can work because small nations tend to complement rather than compete with large economies.

China also offers for Sri Lanka a far bigger opportunity than the short-term gains of exporting more readymade clothes and tea under an FTA. It is these other, bigger opportunities that must motivate Sri Lanka. Rising labour costs and skills shortages are hampering the ascendancy of Chinese firms up the value chain, and this is the second opportunity. This has resulted in Chinese companies relocating some parts of their supply chains to lower-cost locations and countries with higher-skilled workforces, creating beneficial terms of trade all-around. Parts made in various countries are combined - often in China - as final products for export. The electronics, textiles (for readymade clothes) and ICT sectors have some of the widest supply chains in the Asian region. Bilateral trade deals drive specialization, and Sri Lanka may suddenly now find that it can build an electronics and high-tech related industry here after all.

For the most part, in Asia, trade barriers (import tariffs) are relatively low. The enthusiasm in Asia for bilateral trade deals is not driven by the motivation to reduce these further but by the opportunity to integrate with world-class supply chains that already exist in the region. It would be narrow-minded to negotiate an

FTA with China because Sri Lanka can export more clothes and tea there.

Third, China is slated to join two regional trade deals - the Regional Comprehensive Economic Partnership, covering Asian countries and Free Trade Area of Asia and Pacific which would also include the US, Russia and most of South East Asia's most dynamic economies. In addition, the Trans Pacific Partnership (TPP) dominated by the US and Japan, and excluding China, is also taking shape fast.

The only regional trade block Sri Lanka is part of is the pathetic one covering South Asia that hasn't boosted any regional trading activity. Bilateral deals - like the proposed FTA with China -will allow Sri Lanka a leg in to benefit from the increased trade volumes due to these deals. Policymakers here claim they want to make a case for Sri Lanka to negotiate with the nations planning the Trans Pacific Partnership (TPP), which China is not a part of. Being a member of dynamic bilateral and multilateral deals can be game changing for Sri Lanka.

The world's second-largest economy is asserting itself as an investor, lender and trading partner. Sri Lanka's strategic position, at the crossroads of international trade, has aligned Sri Lanka to Chinese interest despite its unappealing size as a trading partner. This is the fourth opportunity that can be cemented with deeper trade ties. Already, China is the second-largest source of tourists to Sri Lanka, accounting for over 10 percent of arrivals. It is also the fastest growing with arrivals to July 2015 up 77% over the same period last year. Chinese (including Hong Kong) foreign direct investment into Sri Lanka in 2013 touched \$400 million, but still only accounted for a mere 0.2% of Chinese outflows that year. Many Chinese projects have broken ground, and if Sri Lanka wins the confidence of private firms, there could be a massive boost to FDI flows here. In 2013, China accounted for seven percent of global FDI.

Also by 2013, the Chinese government had emerged as one of the largest lenders to build infrastructure in Sri Lanka. The tourism, foreign investment and infrastructure finance all boost economic structure here. It ties in with a free trade deal because Sri Lanka can solidify these partnerships with higher trade volumes.

Every sixth person on earth is Chinese. So it should not be surprising if closer ties lead to more Chinese tourists, FDI and foreign aid.

But, trade relationships aren't governed by commercial interest alone; geopolitics matter. This is the fifth reason why China would care about Sri Lanka. China has in play with Sri Lanka a political relationship - as one of its close allies in South Asia - and economic priorities, because the island is a key point in its string of pearls maritime route. Sri Lankan industries aren't competitive against Chinese ones, and an FTA will worry some industries fearing Chinese market dominance here. However, Sri Lanka has a remarkable opportunity to craft a firm economic model. Engagement with China will improve the competitiveness of the economy and the private sector.

A regime change in Colombo has stalled the proposed FTA for now. Getting it back on the agenda soon makes both economic and political sense, forces which have

## Engagement with China will improve the competitiveness of the economy and the private sector.



driven the engagement between the two nations for over half a millennium.

Apart from political and religious objectives, Zheng He's expeditions had commercial aims too. That reflects the importance attached by the Chinese to Sri Lanka as a central place for inter-Asian and international trade.

Vira Alakesvara was eventually released and returned to the island, but there was never any serious hope of his recovering the throne after the humiliation of foreign captivity. In 1414, the captives returned to the island - including a nominee of the Chinese emperor to the Sinhalese throne. But, they came back to a more settled and tranquil political atmosphere here. In 1415, Parakramabahu VI began what was to be a very long reign of 55 years, having speedily eliminated the protégé of the Chinese emperor and founded what came to be called the Kotte kingdom. ■

# NEW INLAND REVENUE ACT: FAQs



**It was on target to increase the direct tax component to 40%, from around 20% at present, and gradually reduce indirect taxes to 60% from around 80%, in the medium term. Will this objective become a reality with the new Inland Revenue Act? If so, under what measures?**

Hopefully, under the following measures, income tax (direct tax) would increase. But, this will not happen in the short term.

**Measures:**

- Re-introduction of capital gains taxation
- Re-introduction of WHT
- Removal of institutional and sector-wise tax exemptions, tax holidays and many other tax concessions that lead to a tax revenue downturn

**The following was announced in 2017 Budget speech:**  
**“Tax administration is negatively impacted by the**

**complex tax structure and the large number of exemptions and tax holidays, leading to a narrow tax base. The income tax system of the country is revisited with emphasis being made on the creation of a much simpler income tax regime with minimum tax exemptions and a broadened tax base. Job creation, investment in fixed assets in designated zones, clean energy and innovation will be the sole grounds for incentives.” Does the new Inland Revenue Act pave the way for this objective?**

Yes, to a good extent. It will broaden the tax base, which has been eroded for long years as various tax exemptions and concessions were added to the law without correct study.

**What will be the new Act’s impact on personal taxation?**

Residents will be taxed on all income, regardless of source and whether or not it is foreign income earned and brought into Sri Lanka. A person’s chargeable income for a year of assessment is the total of the assessable income from employ-

ment, business or investment less than the total amount of deduction allowed. The chargeable income shall be determined from each source separately.

The capital gains tax regime would be burdensome, as the tax has to be paid within a very short time and at a rate of 10% on the gain.

#### **What will be the impact of the proposed capital gain tax?**

Gift of an asset would also fall into the tax bracket. Where an asset is sold, transferred, exchanged or a right of an asset is terminated, redeemed, expired or surrendered, the tax liability might come. The main points considered in the capital gains taxation in the past are not considered, and the new law has very few exemptions or exclusions.

#### **Are the tax computations under the new law more burdensome to a tax professional?**

There are only four sources of income under the new Act. Namely, business income, investment income, employment income and other income. Although the law on calculating income has changed, it would be simpler than the existing law.

#### **What are the changes to penalties on taxes?**

Taxpayers were familiar with penalty provisions under the existing law: under the new law, in addition to penalty provisions, interests are due on underpayment of taxes, as well as for refunds due to taxpayers. The main aspect in penalty and interest provisions are as follows: penalty waiver/reduction can be obtained under reasonable grounds; this situation was there under the current Act as well. However, no provisions are there in the new Act to waive off/reduce any interest accrued on delayed tax payments.

#### **Under the existing Act, the IRD has to give reasons for rejecting a return of income of a taxpayer; under the new Act, there is no legal requirement to do so in issuing an assessment. What are the implications of this change?**

In terms of Section 163 (3) of the present Act, 'Where a person has furnished a return of income, and where an Assessor or Assistant Commissioner does not accept the return and makes an assessment, he shall communicate this to such a person in writing his reasons for not accepting the return.' This was a very key rule that has added many tax case laws as well. In the new law, this provision has been dropped. As this is a fundamental under natural justice, this has been challenged in a case filed against the Bill at SC. The Supreme Court has observed as follows:

"The present law requires the Commissioner General of Inland Revenue to give reasons for rejection of a return of a Tax Payer. Clause 136(5) of the Bill Provides for written reasons to be given where a tax payer applies to make an amendment to his self-assessment. However, at the Administrative Review under clause 139(5) of the Bill, the Commissioner General shall consider the tax payer's request and notify the tax payer in writing of the Inland Revenue's decisions with reasons. As such, the tax payer is not denied of reasons, although the present statute provides reasons to be given at an early stage i.e when

self-assessment is reject by the Assessor. There is no violating of the Constitutional Provisions, though reasons are not given at the earliest opportunity to the tax payer. Reasons would be available at the administrative review. When the tax payer requests for a review [clause 139(2)], and thus would entitle the tax payer to appeal to the tax appeals commission. The court observes that it is desirable given reasons on rejection of a tax payer's self-assessment. But, it is not mandatory to do so since reasons need to be given at a certain stage of the process. It is not necessary to do so at every stage of the process. There is nothing that offends constitutional provisions since reasons are given when the taxpayer decides to appeal to the C.G.I.R. and to the Tax Appeal Commission."

#### **There's some concern that employment income will be assessed excessively under the new law. Is this so?**

Under the current law, travelling allowance in lieu of one motor vehicle of up to Rs50, 000 is exempt from tax. Under the new law, this is made liable. However, tax applicable on employment income slabs are changed to compensate the matter.

Under the Current Law		Under the New Law	
First Rs750,000	Nil	First Rs1,200,000	Nil
Next Rs500,000	4%	First Rs1,200,000	4%
Next Rs500,000	8%	Next Rs600,000	8%
Next Rs500,000	12%	Next Rs600,000	12%
Balance	16%	Next Rs600,000	16%
		Next Rs600,000	20%
		Balance	24%

#### **Do you see any change in tax appeal procedure under the new Act?**

Yes, a significant change can be seen. The period of time allowed to finalise an appeal at the IRD under the existing law is 2 years. Under the new law, it is 90 days. Going further, the time period to finalise an appeal at the Tax Appeal Commission also has been reduced to 90 days, which will be inadequate.

#### **Eventually, will the implementation of the new Act bring a good result to the country?**

I presume so. Tax revenue will definitely go up for three reasons: First, tax exemptions and concessions were curtailed. Those fall into tax liability; second, the re-introduction of withholding tax for many segments will raise revenue, while making an opportunity to expand the tax net; and third, tax rate hikes for several sectors will generate more tax revenue. Simultaneously, unrest among some taxpayers would also occur due to erosion in their tax plans, and unexpected tax liability would fall on their business or investment atmosphere. ■

# CERTIFIED TAX ADVISOR

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Level	Awareness Level	Advisory Level	Application Level
Duration	4 months	8 months	6 months
Course Fee	Rs.25,000/=	Rs.65,000/=	Rs.60,000/=

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- **NEW INCOME TAX ACT – I R Act no.24 of 2017 also will be covered**
- Free study guides and course materials
- Paper discussions, Case study discussion and Interactive sessions
- Guidance in Tax Advisory Report writing
- Use of the CA Sri Lanka Library
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## AWARENESS LEVEL

- Entry requirement : 3 passes at G.C.E Advanced Level or Edexcel Exam
- Next intake : 7th January 2018
- Awareness Level exemption fee : Rs.6,000/=

## ADVISORY LEVEL

- Next intake : 7th January 2018
- Advisory Level exemption fee : Rs. 15,000
- Entry requirements : Awareness Level
  - Students who have successfully completed the Tax Paper at CA Sri Lanka at Executive level or S1/Intermediate level (previously)
  - CA Sri Lanka Members
  - Tax Officers/Assistant commissioners of the Department of Inland Revenue with 2 year experience
  - LLB Degree holders who have completed the Tax Paper
  - Members of any other professional body with experience whom will be reviewed on a case by case basis

## Lectures on Weekends

## APPLICATION LEVEL

- Commences on : April 2018



**INQUIRIES: TAX FACULTY 011 -2352000 EXT: 1047/ 1053 (WEEKDAYS)**

## Update

### CA Sri Lanka's APFASL confers CPFA qualification to over 130 senior public servants



Over 130 senior public servants were recently conferred with the Chartered Public Finance Accountancy (CPFA) qualification at the inaugural CPFA Convocation organised by the CA Sri Lanka Public Sector Wing, the Association of Public Finance Accountants of Sri Lanka (APFASL), in an effort to strengthen the country's public financial management. The qualification was granted to 132 public servants who were accountants, auditors and commissioners of the Inland Revenue Department based on merit, and who had fulfilled the necessary criteria including a minimum of 10 years in service in an executive grade as accountants, auditors and commissioners with an MBA or higher degree in a finance-related subject, and above the age of 40 years. The convocation was

held under the patronage of Minister for Special Assignments Dr. Sarath Amunugama as chief guest and State Minister of Finance Eran Wickramaratne as the guest of honour.

CPFA is an internationally recognized, groundbreaking qualification especially developed by APFASL and the Chartered Institute of Public Finance and Accountancy (CIPFA) London for the benefit of accountants, auditors and assessors in the Sri Lankan public sector, to help them enhance their professional skills, to strengthen financial management within the sector, which in turn will reflect positively on the country and its economic development.

Speaking at the convocation, President of CA Sri Lanka Lasantha Wickremas-

inghe said that accounting professionals contribute vastly towards the country's economic growth, and public financial management is a key ingredient for economic development in Sri Lanka.

"Therefore, highly educated professionals with the required skills and expertise in promoting good governance, transparency and accountability are the need of the hour; and this is especially important for a country like Sri Lanka. Therefore, I am certain the 132 members who will receive the CPFA qualification today based on merit will pave the way to enhance the country's public finance management, and give leadership towards achieving this goal," he added.

APFASL President V. Kanagasabapathy highlighted that professional organisations

have an important role to play in strengthening the professional capacity of the public sector, having understood this responsibility. "CA Sri Lanka, together with the APFASL, has taken steps to help professionalise public financial management personnel in Sri Lanka by launching the CPFA qualification, among several other important initiatives," he said. He pointed out that the association decided to confer the qualification on merit on the 132 public servants as the examination process will take time to produce fully qualified chartered public finance accountants.

Kanagasabapathy also extended his appreciation to the Asian Development Bank, for supporting APFASL's initiatives to strengthen the financial management in the public sector. ■

## Update

### ACCA Global President Visits CA Sri Lanka



Global President of the Association of Chartered Certified Accountants (ACCA) Brian McEnery paid a courtesy call at the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) recently, where matters

in relation to the development of the accounting profession were discussed at length.

He was received by CA Sri Lanka Council Members Sanjaya Bandara, Kapila Atukorala, Dulitha Perera, Tishan

Subasinghe and Chief Executive Officer Aruna Alwis.

McEnery, was accompanied by Nilusha Ranasinghe, Head of ACCA Sri Lanka, and several other officials from ACCA.

In its capacity as the na-

tional accounting body in the country, CA Sri Lanka works closely with its counterparts, including ACCA, towards the enhancement and development of the accounting profession. ■

### Amjath Nazeer becomes youngest CA student to complete final exams



Twenty-year-old Amjath Nazeer created history recently when he became the youngest-ever student to complete the final exams, including the case study, at CA Sri Lanka in his pursuit to become a globally sought-after Chartered Accountant. Nazeer joined CA Sri Lanka in 2013 and completed all CA examinations this year. He currently serves at SJMS Associates, an affiliate member of Deloitte Touche Tohmatsu. He also carried out his practical training at SJMS Associates from 2014 to 2017 as

an audit associate.

Nazeer, who aspires to be a chief executive officer, credits his dedication and hard work as what helped him reach this important milestone at such a young age. He also appreciated the continuing guidance from his parents. Nazeer said it was important to have confidence in one's capabilities to achieve success in life. He also expressed his appreciation to his supervising partner and the managers he worked under who helped and guided him through the early years of

his practical training at SJMS Associates.

Nazeer had his early education at Amal International School, and thereafter proceeded to Saudi Arabia with his family and studied at Indian International School. On his return, he joined Royal Institute, and after his London Ordinary Level examination, completed the exams of the Association of Accounting Technicians of Sri Lanka (AAT) within a year. He then joined CA Sri Lanka to pursue a career as Chartered Accountant. ■

# Fast track your way to a global career in BPO with the CFAS qualification

As Sri Lanka aspires to be the global hub in the BPO industry, there is an increasing need for specialised professionals to drive the billion-dollar industry in the country. To complement this vision, CA Sri Lanka, with the support of the industry, developed the groundbreaking Certified Finance and Accounting Specialist (CFAS) professional qualification for the benefit of students and professionals who aim to fast track their success in this global profession.

The CFAS qualification, dubbed a global qualification, paves the way for aspiring professionals to work in a recognised global company in Sri Lanka. The programme is currently on its third intake, and has received an overwhelming response from students and professionals alike due to its very relevant curriculum, and especially because the programme covers areas pertinent to the industry.

The CFAS qualification has been endorsed by the industry and was developed jointly by CA Sri Lanka, the Sri Lanka Association for Software and Services Companies (SLASSCOM) and the Information and Communication Technology Agency (ICTA) of Sri Lanka.

The qualification leads learners to become Finance and Accounting Outsourcing (FAO) professionals, where technical and professional skills have been blended to cater to designated job roles in

the industry, while also helping students who follow the qualification achieve professional success at a faster pace. The CFAS qualification is offered at three levels: Trainee Associate, Senior Associate and Team Lead. The course covers a total of 12 learning modules, and focuses on four major study areas - finance and accounting, management aspects, process and quality, and professional skills - which are all important to ensure a successful career in the outsourcing industry.

Chief Executive of Infomate Pvt Limited Jehan Perinpanayagam said that the CFAS qualification is a unique study programme that facilitates an accelerated career development and learning within the finance and accounting outsourcing industry. It exposes students to world-class practices and processes, and equips students with knowledge and skills relevant in global context. "The curriculum includes highly valued aspects like Six Sigma, information security, introduction to ERP systems, soft skills and management aspects, together with a good grounding in finance," he said.

There are several types of outsourcing sectors within the BPO industry, from service centers of call centers to data entry, as well as finance and accounting. Thus, the caliber of students required for this vibrant industry need to have the ability to be professionals working on projects and

**The curriculum includes highly valued aspects like Six Sigma, information security, introduction to ERP systems, soft skills and management aspects, together with a good grounding in finance..**

dealing with international clients from the UK, the US and Australia.

Commonly, students with CA Sri Lanka and other finance and accounting professional qualifications enter this area where they grow at a fast rate and progress to become management level professionals, based on their exceptional performance. There is a business and commerce element required to enter the industry, which makes this industry not just number crunching; the CFAS qualification has been developed in a way to offer discerning students a fast track to achieve professional success, as all these important elements have been inculcated in the qualification.

Understanding client management, process management, and finance and accounting are the three keys to this industry. This industry is unique, where it needs fresh, dynamic and enthusiastic people who have a flare for analysis and business intuition.

The six-month internship that forms part of the qualification also paves the way for students to gain employment at top companies such as Hayleys, WNS, Informate, Tellida, Hemas, HConnect, PWC, Aitken Spence, E&Y, RR Donnelly and Expo Freight. However, this will be based on their performance while they intern.

Chairman of SLASSCOM, Arul Sivagananathan said that SLASSCOM's vision for 2022 was for the industry to achieve the \$5 billion mark, along with 200,000 direct employment opportunities and 1,000 startups.

The CFAS will commence its 3rd batch in September 2017. The course duration is 12 months including the six-month internship, which is assigned at the 2nd stage of the programme. The lectures are conducted by industry experts who work at leading companies like Hayleys, Accenture, WNS and Vishwa BPO. The lectures are held at CA Sri Lanka - 30 A Malalasekera Mawatha, Colombo 07. For further details, contact the CA Business School on 011-2352047 or write to us on [cfas@casrilanka.org](mailto:cfas@casrilanka.org). ■

# Update

## CA Sri Lanka and IRCSL impart importance of Integrated Reporting among corporates

Integrated Reporting (IR) recognizes that a business has a wider stakeholder community that can influence its performance than just the providers of finance. IR also recognizes that a business deploys many capitals, financial and non-financial. IR has demonstrated that a company's value is enhanced when these aspects are recognised and reported.

CA Sri Lanka, together with the Integrated Reporting Council of Sri Lanka (IRCSL), continued to be at the helm in helping organisations, particularly listed companies, understand the importance and benefits of IR by publishing a supplementary guide to help corporates create and add value to stakeholders.

The 'A Supplement to a Preparer's Guide to Integrated Corporate Reporting' publication builds on fundamental concepts relevant to the IR framework and expands on several vital components including materiality, stakeholder engagement, connectivity, reliability, completeness, consistency and comparability, which are believed to be very relevant to corporates in Sri Lanka.

The latest publication is a follow-up to the 'Preparer's Guide to Integrated Corporate Reporting' issued by CA Sri Lanka in 2015 to provide localised guidance to corporates to produce a more comprehensive integrated report, while moving away from conventional annual reports. The latest guide aims to help organisations comprehend the requirements based on

the IR framework and guiding principles.

With businesses today facing heightened expectations on their role in society and the world, and with earning profits only being one of many criteria by which performance is measured by stakeholders, IR has taken centre stage in recent years. As the national body of accountants, CA Sri Lanka has been at the forefront in helping corporates embrace this framework, which goes beyond traditional financial reporting and helps organisations offer a more holistic picture to their internal and external stakeholders and even those who are indirectly linked to the organisation.

President of CA Sri Lanka Lasantha Wickremasinghe highlighted that, in recent years, IR has taken increased importance in the context of creating corporate value and sustainability to organisations. "In ensuring Sri Lanka's corporates are in line with these relevant developments, the institute took the lead to provide leadership and insight by launching several initiatives to educate organisations in the country on the frameworks," he said.

Key among them, Wickremasinghe explained, was the establishment of the IRCSL, which consists of professionals from the accounting and non-accounting sectors, regulators, chambers and academics. He also said that the Preparer's Guide to Integrated Corporate Reporting and the latest publication were all part of a larger programme to help



**There has been a positive outcome shown by companies using the IR framework, and as a country that has growing consumption, along with strong urbanization, there is an increasing need for corporates to understand their responsibilities**

corporates understand the importance of this framework. "We have also included a special award category for integrated reporting in the Annual Report Awards, to promote the framework among companies in the country," he said.

Chairman of the IRCSL Asite Talwatte said that, in 2015, CA

Sri Lanka released the Preparer's Guide to Integrated Corporate Reporting to support and facilitate organisations to embark on the IR journey. "Since then, and based on the current requirements, we have taken steps to publish a supplementary guide that covers various guiding principles under the framework, which are relevant for organisations in Sri Lanka," he said.

Talwatte elaborated that, during various forums, it became evident that there was a need to issue a separate publication on the guiding principles, as some organisations did not have the required clarity and understanding on these principles. "So, we took steps to develop this supplementary guide for the benefit of these organisations who required more insight on these guiding principles," he said.

While explaining that the IR framework tries to bridge the gap in annual reporting where hitherto only financial information was disclosed, Talwatte noted that the IR framework promotes the importance of financial and non-financial capital such as social capital, human capital and even environmental factors relating to an organisation. "There has been a positive outcome shown by companies using the IR framework, and as a country that has growing consumption, along with strong urbanization, there is an increasing need for corporates to understand their responsibilities to all stakeholders and even the environment," he added. ■

## CA Sri Lanka confers distinguished ACA and FCA designations to students



CA Sri Lanka conferred the distinguished Associate Chartered Accountants (ACA) designation to 291 new Chartered Accountants and the prestigious Fellow Chartered Accountant (FCA) status to 62 of its members at the 2017 convocation recently.

The convocation was held under the patronage of Minister of Industry and Commerce Hon. Rishad Bathiudeen, Minister of Skills Development and Vocational Training Hon. Chandima Weerakkody and Managing Director of Lanka Walltiles PLC Mahendra Jayasekara.

Joining a fraternity of over 5,600 existing members, the new Chartered Accountants were officially granted associate membership during the convocation, which signifies the completion of their glob-

ally recognised professional qualification in chartered accounting. The convocation also witnessed 62 existing associate members being conferred the FCA, thus elevating them to the highest stratum in their professional careers as Chartered Accountants.

Addressing the new ACAs and FCAs, President of CA Sri Lanka Lasantha Wickremasinghe said Chartered Accountants are known as contemporary professionals, who have to remain relevant at all times and be conscious of the local and global trends, standards and challenges. "Whether you are an ACA or FCA, your thirst for knowledge must continue, and you must continue to develop yourself professionally with the assistance of the continuous professional development programmes

the institute organizes for the benefit of all members," he said. "The success of our profession ultimately depends on the respect that we as Chartered Accountants gain, and continue to gain. We are in demand because we are good at what we do and because we discharge our duties ethically and respectfully. So, as guardians of the accounting profession, don't ever compromise on your values," he urged.

Minister of Industry & Commerce Rishad Bathiudeen, in his congratulatory message, commended the institute for propagating the importance of this qualification to every part of Sri Lanka, thereby affording the opportunity for youth in the country to realise their professional dreams.

Minister of Skills Develop-

ment and Vocational Training Chandima Weerakkody said that, as associate members, the new Chartered Accountants are now well geared to enter the corporate world and conquer it. "Forge ahead and contribute positively towards developing the economy of our country. Be an innovative thinker and enhance your contribution to achieve economic development and sustainability of the organization you are associated with," he said.

Managing Director of Lanka Tiles PLC Mahendra Jayasekera said that the CA qualification opened doors to new vistas and will give the necessary confidence to the new members to embrace their professional journey with the opportunities and challenges thrown at them. ■

## Update

# CA Sri Lanka launches the CPD Online Academy



In an innovative move to be on par with global professional bodies, CA Sri Lanka recently launched the CPD Online Academy to offer discerning Chartered Accountants both in Sri Lanka and overseas a platform to enhance their professional competence and gain Continuing Professional Development (CPD) to help them succeed in today's competitive business environment.

The CPD Online Academy, which allows Chartered Accountants to develop their knowledge in the convenience of their home or office, was launched by Minister of Special Assignments Dr. Sarath Amunugama at a ceremony held in Colombo recently.

CPD is a mandatory require-

**The CPD Online Academy will help Chartered Accountants enhance their knowledge on pertinent topics in relation to their professional progression**

ment for Chartered Accountants, as it helps them enhance their professional skills to remain relevant with changes at a local and international level.

The CPD Online Academy will help Chartered Accountants enhance their knowledge on pertinent topics in relation to their professional progression. The CPD programmes have been carefully selected to challenge, stimulate and inspire Chartered Accountants, while allowing them to obtain CPD hours and help them progress as highly sought-after professionals.

The academy offers programmes covering leadership, negotiation skills, tax, demand-side management and cyber security, for the

benefit of Chartered Accountants living and working both locally and overseas to help them develop their competencies further. Online CPD programmes have been introduced through two online academies. The institute is also in the process of introducing more programmes to the academy, covering strategic management, economics among other topics, in addition to core technical programmes relevant to accounting professionals.

CA Sri Lanka President Lasantha Wickremasinghe said that, for Chartered Accountants, lifelong learning is a must as it complements the building of knowledge and skills to help them succeed. "Today, our members lead both local and global companies because of their unique skills, and there is no doubt that the mandatory CPD requirement of a Chartered Accountant has further boosted their professional competency as it allows members to continuously be updated and educated with changes in the global arena, thus helping them remain relevant at all times," he said.

Chairman of the CA Sri Lanka CPD Committee Heshana Kuruppu said that staying relevant is important if someone is to achieve success in their chosen field. "I encourage our members to take maximum advantage of this online academy, which will help them enhance their knowledge and standing as globally sought-after professionals," he said. ■

# BSc in Applied Accounting Degree marks highest-ever intake in 2017



The BSc. In Applied Accounting degree offered by CA Sri Lanka, which has gained much respect and popularity among students and employers within a short span of time, recorded the highest-ever intake this year, with over 500 students including foreign students.

Explaining the reasons why the BSc. In Applied Accounting Degree has gained such popularity, President of CA Sri Lanka Lasantha Wickremasinghe said that the institute, which commands a history spanning nearly six decades, has always been the preferred destination for recognised accountancy education in the country. “In 2013, we commenced the degree with an intake of 12 students, but within just a few years, the intake has grown to over 500 presently, which is a testimonial to the growing popularity of this qualification. In fact, we achieved the highest intake this year, which reflects a growth of 140% over the previous year,” he said. Hundred students who were part of the inaugural intake successfully completed their degree and

graduated in November last year.

According to Wickremasinghe, the high standard of the degree is demonstrated by the high level of confidence the students have in the programme. “There are many reasons why students prefer this degree; chief among them is the fact that this degree is recognised and supported by the University Grants Commission, and is the only degree qualification offered by a professional institution, which puts it on par with degrees offered by state universities,” he pointed out.

As a result, students who follow the CA Sri Lanka degree have the same status as state university graduates when it comes to employability. More importantly, the two-year internship offered through this degree is part of the programme and one-of-a-kind, adding more value to the entire programme. This internship ensures that graduates enter the workplace with practical experience and clear insights into the demands of the workplace.

Chairman of the CA Sri Lanka School of Accounting and Business Heshana Kuruppu said that the degree is helping retain talented students in the country, who otherwise would have been forced to go abroad to gain higher academic and professional qualification. “As a leading tertiary education provider, CA Sri Lanka launched this degree to accommodate students who are unable to get admission

## “The CA Sri Lanka degree programme in applied accounting guarantees employable graduates”

– Heshana Kuruppu,  
Chairman of the CA Sri Lanka  
School of Accounting  
and Business

into state universities due to lack of seats despite having strong academic records. Also, the CA Sri Lanka degree programme in applied accounting guarantees employable graduates. Our students have the flexibility to seek employment in the public sector as well, since this degree is approved by the UGC,” he said.

Encouraged by increasing interest in the degree, Kuruppu said that the CA Sri Lanka degree school is also looking

to expand facilities to a more spacious location. “We are delighted with the swift global recognition being bestowed on the degree. We also intend to extend merit-based scholarships to students in the future. Negotiations are also on with leading international universities to partner with us to provide further options for students pursuing the degree,” he said.

Apart from recognition by the UGC, the BSc. in Applied Accounting has also been internationally accredited from highly respected accounting organisations such as the Association of Chartered Certified Accountants (ACCA) and CPA Australia, while leading Australian universities such as Deakin and La Trobe offer transfer opportunities to students following this degree.

Students require passes in three subjects at the GCE Advanced Level examination or any foreign qualification equivalent to the GCE Advanced Level Examination to register. Registration is available for students with pending A/L results as well. Loan facilities have also been arranged for students in order to facilitate fee payments for the course. Furthermore, students from non-commerce streams can enroll for this degree, as prior knowledge of accounting is not a prerequisite, thereby offering great flexibility. The medium of instruction for the programme is English, and there are two annual intakes, in March and in September. ■

## Update

# New Commissioner General of Inland Revenue calls on Chartered Accountants to bridge gap between taxpayers and the tax department

CA Sri Lanka felicitated the new Inland Revenue (IR) Commissioner General Ivan Dissanayake at a ceremony recently. Addressing the event, Dissanayake said that Chartered Accountants can play a more significant role by being intermediaries who support the Inland Revenue's efforts to raise government revenue required to provide public services like health care and education facilities, which in turn ensures the well-being of the community as a whole.

"As professionals who help taxpayers understand and comply with their tax obligation, you are the professionals who can bridge the gap between taxpayers and the inland revenue, and we rely on you because you can encourage voluntary compliance so tax evasion can be minimised," he said during

**The ongoing RAMIS project will be an immense strength in achieving this target, as it enables the IR information system to be integrated with more than 30 interface agencies through which the IR can get required information to bring new taxpayers into the system**

– Dissanayake

his speech.

Dissanayake also unveiled a plan where he hoped to collect Rs1 trillion by 2019/2020 through the expansion of the taxpayer base, while also taking steps to adjust indirect and direct tax ratios. "The ongoing RAMIS project will be an immense strength in achieving this target, as it enables the IR information system to be integrated with more than 30 interface agencies through which the IR can get required information to bring new taxpayers into the system," he said.

Congratulating Dissanayake on his appointment, President of CA Sri Lanka Lasantha Wickremasinghe said that the mutual assistance both organisations can extend to each other is vast and diverse, which in turn will help strengthen the country's position and

enhance its economy. He recalled how both CA Sri Lanka and the Inland Revenue have worked together in collaboration to enhance and improve Sri Lanka's taxation structure.

"Any organisation's true success always relies on the leadership and the hard work of its staff; with your vast experience, including foreign training, I am most certain you will be the visionary leadership who will possess the ability to drive the Inland Revenue to greater heights, while ensuring a more proactive tax system in the country," he added.

Chairman of the CA Sri Lanka Faculty of Taxation Duminda Hulangamuwa said that the relationship between CA Sri Lanka and the IR has been very strong over years, and continues to strengthen on a daily basis. "Mr. Dissanayake, who I have personally associated for a period of 20 years or more, has been one of the few officers at the department who have taken decisions fearlessly, and he has been decisive and independent in whatever he does," he said.

Hulangamuwa added that, under Dissanayake's leadership, the relationship shared between the two organisations will continue to become stronger.

During the felicitation ceremony, CA Sri Lanka also launched the Transfer Pricing Guideline publication for the benefit of its members. The guide will help maintain uniformity and the professional outlook when issuing the relevant certificates. ■



## Deputy Minister Harsha De Silva underscores the need for chartered accountants to adapt and evolve with changing times

Deputy Minister of National Policies and Economic Affairs Dr. Harsha De Silva recently called on chartered accountants to adapt, grow and face the drastic changes in the business world head-on. Addressing the FCA Convocation at CA Sri Lanka, he said, “As a policymaker or accountant, we must learn to adapt to these evolving economic conditions and business models.”

The distinguished FCA designation was conferred to 201 chartered accountants, elevating them to the highest stratum in their professional career. The new fellow members of CA Sri Lanka included high-profile corporate leaders.

Speaking further, the deputy minister who was the chief guest at the convocation, noted that business models that have lasted for decades have been revolutionised within a matter of a few years. “What does this have to be with me as an economic policymaker and you Sri Lanka’s top group of accountants?” he asked. Dr. De Silva elaborated that the economic realities presented by these new business models mean that there was an increasing need to adapt. “Not only do we have to learn to deal with changes, we need to learn how to grapple with this rapid change,” he said.

He highlighted Uber, Facebook, Alibaba and Airbnb as four models that have completely revolutionised conventional business models, creating a paradigm shift. “Sectors such as taxi cabs and tourism have been completely turned on their head by the internet’s disruptive nature,”

he said.

Therefore, the deputy minister noted that, as professional accountants and fellows of CA Sri Lanka, FCAs have an important responsibility to evolve and change. He said that the access economy means more people were monetizing their personal assets, whether it’s their car, their spare bedroom or their skills. “The rise of long-term distribution means these suppliers are becoming a vital part of the nation’s economy. These small businesses are changing the face of business. As accountants, you must think about whether and how we should bring these people into our taxation system. It may be unpopular, but we have to do this. We have to create an entrepreneurial culture, and we have to create innovation, yet we have to also make sure that taxes are collected,” he added.

Prof. Mohan de Silva, chairman of the University Grants Commission, said that there have been various constraints in the progression of the higher education sector in the country. He noted that the country has suffered in terms of rankings both in a global and regional context and continues to have a poor visibility as an international destination for quality higher education and student mobility when compared to countries such as Singapore and Malaysia. But, he said, steps were now being taken to address these issues.

Prof. De Silva said that plans were afoot to establish medical faculties at the Universities of Wayamba, Sabaragamuwa



and Moratuwa. He said that the technology programme introduced has become a hit among students, especially those looking at progressing to mid-level management positions. Prof. De Silva also said that steps have also been taken to convert the English language units at universities to English language departments, to develop the quality of teaching.

He also disclosed that the Independent Quality Assurance and Accreditation Authority Bill will be submitted to the Cabinet of Ministers for approval, which would be the way forward to develop Sri Lanka’s higher education future.

President of CA Sri Lanka Lasantha Wickremasinghe,

addressing the new FCA members, said they should take greater responsibility in shaping the profession to meet with increasing stakeholder expectations.

Chairman of the CA Member Relations Committee Thivanka Jayasinghe said that the fellow status, more commonly known as FCA, is given to members as its highest level of membership. “This premier status of the accounting profession in Sri Lanka will provide you with greater responsibility now. The professional standards that are expected of a chartered accountant, are extremely challenging and I am sure the FCA status will give you even more strength to maintain this standard,” he added. ■

## Update

# CA Sri Lanka's DISSCA programme at the forefront in fighting cyber crime



With cyber crime attacks increasing across the world, CA Sri Lanka continued to play a leading role in helping professionals, including Chartered Accountants, to enhance their capabilities to fight cyber crime through the highly acclaimed Diploma in Information Systems Security, Control & Audit (DISSCA).

The institute recently organised the Diploma awarding ceremony for the 23rd intake of the DISSCA programme. The programme jointly conducted in collaboration with the Institute of Chartered Accountants of India (ICAI) has to-date trained hundreds of professionals including managers and supervisors of audit firms, internal auditors, accountants, and financial controllers to enhance their expertise in this unique area. Speaking at the event,

President of CA Sri Lanka Lasantha Wickremasinghe said information technology is an important pillar for all professionals; and at a juncture where competition and challenges are at its highest, the importance of enhancing the knowledge of a professional in vital areas such as IT need not be underscored. "CA Sri Lanka has always been at the forefront in offering our members and students the best and most pertinent programmes for their professional development; and the launch of the DISSCA programme in 2004 with the Institute of Chartered Accountants of India was one such initiative in helping our stakeholders be proficient in multiple areas," he said.

Wickremasinghe noted that cyber crime is a very serious concern today, and as representatives of corporates,

**The truth is there is a technological revolution and it's not going to stop. So we need to keep up and update our knowledge on these vital subjects**

professionals must take extra precaution to ensure their organisations are safeguarded from cyber attacks and other dangers. "The truth is there is a technological revolution and it's not going to stop. So we need to keep up and update our knowledge on these vital subjects," he added.

The DISSCA programme, which has an annual intake, covers pertinent areas in

relation to enhancing IT security. The programme covers primer on information technology IS infrastructure and emerging technologies, information systems assurance services, governance and management of enterprise information technology, risk management and compliance reviews, protection of information systems infrastructure and information assets, systems development: acquisition, maintenance and implementation, software audit and mock test, business continuity management, and professional opportunities in information technology.

Entry qualification for the programmer is a degree from a university or a professional qualification such as CA, CIMA, ACCA, CMA, Banking and Finance, CIM or any other recognised qualification. ■

## CA Sri Lanka promotes importance of dynamism and agility in corporate leadership at 38th National Conference of Chartered Accountants

Amid increasing complexities and volatility, and with businesses expected to become more dynamic and adapt to change continuously, CA Sri Lanka will take the lead in promoting the important need for corporate leaders to embrace dynamism and agility at the 38th National Conference of Chartered Accountants scheduled to be held in October 2017.

The conference, which has built a reputation as one of Sri Lanka's most sought-after and highly attended annual business summits, will this year revolve around the theme 'Dynamism - Agility in Leadership'. During the three-day conference (25-27 October 2017 at BMICH Colombo), both local and international speakers will steer the over 1,500 delegates to think out of the box and understand why it's increasingly important to incorporate dynamism within the corporate culture in Sri Lanka, as well as look at developing more agile leaders who understand the importance of changing with time, to ensure sustainable and successful corporates.

Addressing a press conference held in Colombo, President of CA Sri Lanka Lasantha Wickremasinghe said that, as a country that belongs to the fastest growing region, Sri Lanka too can take great advantage of this exponential growth. "Although we are a small nation, we have the potential to become a global player due to our strategic location on the world map. But, to reach this goal, we need leadership with proper vision. We cannot only



expect governments and policymakers to drive our country forward. As professionals, we too have responsibilities to support this journey," he said.

Wickremasinghe explained that there is an increasing need to encourage agility across the broader spectrum, be it at national or corporate level. He also said that the technological revolution is another reason why more and more businesses, professionals and corporate leadership need to understand the need to adapt with time and stay relevant by being more agile and dynamic in maneuvering businesses.

The 38th National Conference theme was unveiled by Wickremasinghe in the presence of CA Sri Lanka Vice President Jagath Perera, Chairman of the National Conference Committee Tishan Subasinghe, Chairperson of the National Conference Technical Committee Anoji De Silva and Chief Executive Officer Aruna Alwis. Tishan Subasinghe said that there is an increasing need

to see more agility and dynamism among business leaders, who also comprise of Chartered Accountants. "Therefore, this year's national conference will shed important insights on why it's important to create agile leaders, who know when to adapt and change with times, and more importantly, be flexible and move away from archaic mindsets.

The national conference is the perfect platform to influence senior executives and business leaders to understand the importance of an agile culture in an organization, as well the need to groom agile and dynamic leaders who will not only enjoy individual professional success, but will also help their organisations progress," he said.

Delivering the rationale behind this year's theme, Chairperson of the National Conference Technical Committee Anoji De Silva pointed out that, as organizations grow, it becomes increasingly difficult to change faster, as

managers tend to confine themselves to their comfort zones. "To break these barriers and constantly challenge the status quo, organizations will require visionary leaders and agile leadership, as without an agile leader it is unlikely that an organization can develop and inculcate an agile culture," she said. De Silva also noted that agility of few leaders in an organization would be of no value if most of the other decision makers are dinosaurs, and hence this is where the culture of agility becomes so important to ensure the momentum of change continues. "To survive in this highly volatile and complex world, firms must demonstrate agility in fulfilling customer expectations, product design and enhancement, collaborative innovation, and organizational structures. Leaders need to develop a level of organizational agility that matches the increasing level of change and complexity in their business environment," she added. ■

## Update

# CA Sri Lanka Students Society wins ACCA Next Gen Challenge



The Students Society of CA Sri Lanka recently won the Next Gen Challenge powered by ACCA and TV1.

The CA Sri Lanka Students Society Team comprising of Mohamed Rifan, Jayashan Grero, Piyumi Dhananjana and Dihan Udugampola beat six other teams to win under the 'other professional bodies and institutes' category at the competition. A total of 15 teams, representing schools, private educational institutes and ACCA students representing different ACCA learning providers participated in the challenge.

The competition comprised a series of interesting challenges where students participated in, based on the key areas that ACCA acknowledges to be important to finance professionals. Each participating team had three challenges to complete, including a quiz round, skit round and problem solving round.

The innovative competition

was organised to help millennials become well-equipped to deal with the changes driven by digitisation and globalisation by having a global outlook, being technologically savvy and effectively using finance as a valued platform for their future careers. This was the first time such a challenge was organised in Sri Lanka. This competition targeted at Advanced Level students studying in the Commerce stream of leading schools, as well as private educational institutes and ACCA's own tuition providers.

A team of leading finance professionals in the industry, who are also ACCA members, made up the eminent panel of judges for the competition. The judging criteria was based on skills demonstrated in analysing and conceptualising given challenges and scenarios, teamwork, presentation of practical solutions, creativity and innovation, as well as utilising best practices. ■

## Bank of Ceylon, National Savings Bank and Sampath Bank powers CA Sri Lanka's "Miyasi Nimmaya"

Bank of Ceylon, National Savings Bank and Sampath Bank powers CA Sri Lanka's "Miyasi Nimmaya"

Bank of Ceylon recently powered the "Miyasi Nimmaya" Musical Extravaganza of CA Sri Lanka with a platinum sponsorship, while National Saving Bank and Sampath Bank were the bronze spon-

sors of the musical which brought together some of Sri Lanka's leading singers on a single stage.

The musical evening on August 5, 2017, was organised by the CA Sri Lanka Member Relations Committee and the Members' Benevolent Society with top performers including Sunil Edirisinghe, Amara-

siri Peiris, Nirosha Virajini & Kasun Kalhara taking the stage. Manoj Peiris & his Orchestra provided the musical for the show.

The musical evening held at the Bishop's College Auditorium, was the second initiative in raising funds for the "Member Support Scheme" of CA Sri Lanka.



## CA Sri Lanka's APFASL recognizes public sector organisations at Inaugural Best Annual Reports & Accounts Awards

Several public sector organisations including universities, statutory boards, research institutes, and provincial and urban councils were recently recognised at the inaugural Best Annual Reports & Accounts Awards organised by CA Sri Lanka's public sector wing, the Association of Public Finance Accountants of Sri Lanka (APFASL), for their high-quality financial reporting.

A total of 19 public sector organisations were awarded for high-quality financial reporting standards, of which a total of five organisations were recognised as winners under five categories. The competition was organised in an effort to enhance transparency and accountability in the public sector, and to encourage excellence in the presentation of information in annual reports and accounts.

The University of Moratuwa, won under the universities category, followed by the University of Sri Jayawardenapura adjudged 1st runner-up and the University of Sabaragamuwa as 2nd runner-up. Under the Statutory Boards category, the Marine Environment Protection Authority was adjudged the winner, followed by the Sri Lanka Accreditation Board and the Provincial Road Passenger Transport Authority - Western Province.

The National Engineering Research and Development Center of Sri Lanka won under the Research Institutes category, while the North Central Provincial Council won under the Provincial

Councils category, with the Sabaragamuwa Provincial Council coming in as 1st runner-up and the Northern Provincial Council being 2nd runner-up. The Wattala Mabola Urban Council won under the Urban Councils category, while the Kalutara Urban Council became the 1st runner-up. The University of Jaffna and the Coconut Cultivation Board won the Compliance Awards at the competition.

President of CA Sri Lanka Lasantha Wickremasinghe said that, for a middle-income nation such as Sri Lanka, there is no doubt that the public sector plays a critical anchor role in supporting the economic development and progress, and therefore, competitions like the Best Annual Reports & Accounts Awards will play an important role in complementing this anchor role. "I am certain this competition will help set new standards within the public sector, by encouraging excellence in the presentation of information in annual reports and accounts, and will help the public sector become more competitive and more accountable," he said.

APFASL President V. Kanagasabapathy said that high-quality financial reporting is important for better decision making, and to ensure transparency and accountability. Therefore, his association took steps to move towards transparent and comparable financial reporting in achieving enhanced performance and accountability. He pointed out that, in fulfilling



this important objective, CA Sri Lanka has also taken the lead to formulate and publish Sri Lanka Public Sector Accounting Standards based on International Public Sector Accounting Standards to strengthen financial reporting practices in the public sector with adequate disclosure requirements. He categorised the Inaugural Best Annual Reports and Accounts Awards Competition as an 'important milestone', and appreciated the efforts made by the Ministry of Finance and the

Auditor General Department in assisting the successful completion of the inaugural competition. "The response to the competition was not what we expected, but we decided to proceed this year with the event, and we hope this will encourage more organisations in the public sector to take part in next year's event," he said, while adding that the ultimate aim of this competition is to gradually bring about excellence in financial reporting in the public sector. ■

## Update

# CA Sri Lanka awards scholarships to 140 outstanding students



CA Sri Lanka recently awarded scholarships to 140 outstanding students, including the top achievers at the 2016 GCE Advanced Level Examination, to help them realise their dreams of becoming globally sought-after Chartered Accountants.

The scholarships were awarded at the institute's annual scholarship awards ceremony, which was held under the patronage of State Minister of Higher Education Mohan Lal Grero, CA Sri Lanka President Lasantha Wickremasinghe and CA Foundation Chairman B R L Fernando.

The scholarships were awarded under four main categories: students who were adjudged the Top Ten Achievers at the 2016 GCE Advanced Level examination, District 1st of the same examination,

under the L. A. Weerasinghe Memorial Scholarship Scheme, and the Business Level Trainees Scholarship scheme.

Speaking at the event, Minister Mohan Lal Grero said the government welcomes private higher education providers who will provide high-quality education. "On average, more than 150,000 students pass the A/L examination and are eligible for higher education, but state universities can only accommodate about 20% of these students; 80% are left out. Therefore, private higher education providers who will provide this education with quality are most welcome," he said.

Grero noted that Sri Lanka needs higher education at a higher and broader level, and steps need to be taken to increase access to higher education, so every person who

**On average, more than 150,000 students pass the A/L examination and are eligible for higher education, but state universities can only accommodate about 20% of these students; 80% are left out**

is eligible for it can enjoy it. "We try our best to increase the number of enrolments to state universities by 10%, but these alone cannot meet this growing demand," he added.

Addressing the scholarship recipients, Lasantha Wickremasinghe said that scholarships are an important

initiative by any institute; in keeping with this objective, every year CA Sri Lanka identifies students who have performed exceptionally well to reward them based on their performances and requirements.

Even though accountants produced in Sri Lanka are recognised and in demand globally, Wickremasinghe recalled that the world we operate in is increasingly facing renewed challenges, and therefore it was important to develop the accounting profession and professionals further, to ensure they remain relevant.

B R L Fernando highlighted the importance of possessing a vision, even as a student. "Even when following a course, it's important to have a vision, and don't let anyone trample your vision of wanting to become a qualified professional," he said. Fernando also said that as much as technical competence was an important pillar in a Chartered Accountant, both vision and the ability to make judgement calls were equally important traits for a Chartered Accountant.

CA Sri Lanka Chief Executive Officer Aruna Alwis said that the institute has always believed in attracting students not only from Colombo, but also from the most rural village in the country. "We believe it is important to give equal opportunity to every student in Sri Lanka, so everyone can pursue their dreams of a successful career," he said. ■

# Chartered Accountant Lakshman Athukorala appointed to top UN Audit Committee

Chartered Accountant Lakshman Athukorala was recently appointed to the Independent Audit Advisory Committee of the United Nations Industrial Development Organization (UNIDO), in Vienna, Austria, as recommended at the 45th session of the Industrial Development Board. This is the first time a Sri Lankan has been appointed to the top UN audit committee. Athukorala is a fellow member of CA Sri Lanka and currently serves as an Advisor to the institute.

The Independent Audit Advisory Committee is an advisory committee established to advise the Board and the Director General on issues within the Audit Committee's mandate. Athukorala will represent the Asia-Pacific group and serve in this capacity for a period of three years, alongside four other members: Elmar Vinh-Thomas from South Africa, Fernando Nikitin from Uruguay, Nikolay V. Chulkov from the Russian Federation and Yuko Keicho from Japan.

An eminent professional with over 40 years of experience, Athukorala was also the first Sri Lankan Chartered Accountant to be appointed to the international staff of the Asian Development Bank (ADB) in Manila, Philippines. During his 14-year tenure with ADB, he served across various capacities, including Senior Financial Specialist and Financial Management Specialist.



Athukorala, who works as an independent Management/Financial Consultant, chairs three Audit Committees at Hayleys Group of Companies and is an independent Director of four companies at Hayleys Group.

With a Master's in Business Administration (MBA) from the Warwick Business School, University of Warwickshire, UK, Athukorala's fields of expertise cover business and project administration & management, finance & financial management, corporate structuring and restructuring, and human resources and audit. He is also a fellow member

**The Independent Audit Advisory Committee is an advisory committee established to advise the Board and the Director General on issues within the Audit Committee's mandate**

of the Chartered Institute of Management Accountants (CIMA) and a Certified Management Accountant (CMA) of the Institute of Certified Management Accountants, Australia.

In the past, he has served in various management level capacities, including that of Director - Corporate Structuring at Mercantile Merchant Bank (MMBL) Group - Sri Lanka, Partner at WD & Co (Chartered Accountants), and Director of M & A Consultants in Sri Lanka. He was also the Principal Auditor at the Auditor General's Office in Papua New Guinea. ■

## Update

# SAB undergraduate Sharmal Dissanayake wins international tennis tournament



Undergraduate of the School of Accounting and Business (SAB) of CA Sri Lanka, Sharmal Dissanayake, who is following the BSc. in Applied Accounting degree recently brought honour to his country after winning an international tennis tournament, the Davis Cup Asia/Oceania Group 03. Following his win, he has gained qualification to play the Davis Cup Asia/Oceania Group 02 next year.

A tennis prodigy who has been playing the game since he was three years old, Sharmal, a past pupil of Royal College Colombo, has been playing competitive tennis for 16 years, and is currently ranked as the national tennis

champion and the number one player in Sri Lanka (men's).

He joined CA Sri Lanka to follow the degree in applied accounting with an ambition to serve his motherland. Speaking of the degree programme offered by CA Sri Lanka, Sharmal said that he finds the degree programme very flexible, especially due to his busy schedule with his tennis tournaments and training. He added that he finds great enjoyment studying at CA Sri Lanka, as the course is conducted in a very team-centric environment. "The staff at the institute is very good, and always assist me on various matters. I

**A tennis prodigy who has been playing the game since he was three years old, Sharmal is currently ranked as the national tennis champion and the number one player in Sri Lanka**

enjoy following the degree programme because it's more like a team working together, which I like very much," Sharmal added. The faculty of SAB comprises a cultivated lecture panel of university

professors, senior lecturers and industry professionals with profound and wide-ranging theoretical and industry knowledge.

Students who have successfully completed the local GCE Advanced Level or the London Advanced Level (Edexcel/Cambridge) examinations with three passes can register for the degree programme. Additionally, professionals who are employed and have fulfilled the basic entry requirements can also follow the degree programme on a part-time basis. Students with pending A/L results also can register for the degree, which is approved by the University Grants Commission and is equivalent to the degrees offered by state universities in Sri Lanka.

Students who complete the degree programme successfully have an added advantage of securing a successful career locally or overseas in the financial management and accountancy sphere.

Within a short span of time, the degree has received international accreditation from highly respected accounting organisations such as the Association of Chartered Certified Accountants (ACCA) and CPA Australia, while leading Australian universities Deakin and La Trobe offer transfer opportunities to students following the CA Sri Lanka Applied Accounting degree. The BSc. in Applied Accounting degree also offers a range of exemptions for CA Sri Lanka, CIMA, ACCA, AAT and SLIATE HND qualifications. ■

## CA Sri Lanka's YCAF Knowledge Forum helps young CAs excel



The continuing series of knowledge forums organised by CA Sri Lanka's Young Chartered Accountants Forum (YCAF) has helped young chartered accountants to move out of their comfort zones and excel in their careers.

The most recent forum featuring Niranjan de Silva, a professional coach, trainer and mentor with over three

decades of industry experience, focused on career development for young chartered accountants. Addressing over 150 CAs, de Silva highlighted the need to have a personal vision and mission if one was to achieve success. He also elaborated on how professionals can incorporate the Japanese Kaizen concept and make small improvements in

their day-to-day life, which can result in their overall personal improvement.

During the forum, de Silva also shared the importance of inculcating excellent communication skills, which he noted was an important factor for any person whether they are engaged in business, sports or even a beauty pageant. He also urged the younger generation

of professionals to demonstrate better discipline in terms of being more punctual, returning calls, being better organised and learning to walk the talk.

Formed in 2009, YCAF aims to help uplift young CAs, under the age of 40, while endeavouring to enhance the public image of Chartered Accountants. ■

## CA Sri Lanka renews partnership with ISACA

CA Sri Lanka renews partnership with ISACA Sri Lanka recently renewed its Memorandum of Understanding with ISACA Sri Lanka Chapter in an effort to enhance ICT skills among Chartered Accountants.

The agreement paves way for both CA Sri Lanka and ICT to jointly organise seminars, workshops and evening presentations to help CA Sri Lanka members develop their on crucial IT areas including ICT controls, governance and security. ISACA will also provide resources to CA Sri Lanka

by launching a certificate programme on cybersecurity fundamentals. The agreement will allow members of CA Sri Lanka and ISACA to enjoy discounted rates for events organised by both organisations. Both CA Sri Lanka and ISACA Sri Lanka Chapter originally signed the MoU in 2014, with the intention to develop the IT knowledge of CA Sri Lanka members by organising joint programmes in the form of workshops and seminars.

The agreement was signed between CA Sri Lanka Pres-



ident Lasantha Wickremasinghe and ISACA President Kumar Manthri in the presence of ISACA's Vice president Sithira Wanniarachchi and Secretary Saman Thilakasiri. ISACA has become a pace-set-

ting global organization for information governance, control, security and audit professionals. ISACA has more than 200 chapters established across 80 countries worldwide, including in Sri Lanka. ■

# REAL ESTATE AND CONSTRUCTION SECTOR: GROWTH AND POTENTIAL CORRELATE WITH CHANGING SOCIAL AND ECONOMIC DYNAMICS



**S.THUMILAN, CHAIRMAN OF BLUE OCEAN GROUP**

**A**s Sri Lanka sails forth towards unprecedented development, the real estate and construction sector has become significant as the backbone of the country's economy. As the sector continues to showcase phenomenal growth, speculations concerning an unstable future have been voiced by some. Sri Lanka's real estate industry is driven forward by a set of expert players that place emphasis on innovation, strategy and sustainable growth. As a result, the real estate and construction sector regained its momentum with substantial growth of 14.9% in 2016 from a 2.7% contraction in 2015, benefiting from the continuation of large-scale developments. Hence, it's important to delve deep and look at the fundamentals that are driving Sri Lanka's real estate market before arriving at conclusions.

The Blue Ocean Group, reputed for their professionalism, integrity and expertise, has been at the forefront of the real estate industry evolution in Sri Lanka. The Group's construction arm, Link Engineering, is one of the pioneering construction companies with a history of over four decades. With Link Engineering being awarded projects valuating to approximately Rs8 billion in the last three months in various part of the island, the Group has already cemented a sound financial plan for the next two years. Having lived through Sri Lanka's real estate boom right from the beginning, through the war years and the post-war boom, S.Thumilan, chairman of the Blue Ocean Group, shared some of his insights on the fundamentally sound nature of the real estate boom in the country.

The group has a strength of high-profile chartered architects, chartered engineers, chartered accountants, chartered quantity surveyors and other industry professionals. With such strong leaderships and volume of developments, the group itself was able to influence over 4,000 employments to the nation.

"As a market leader, we are quite aware of the behavioural aspects of the market. In a recent speech, Honourable Prime Minister Ranil Wickremesinghe mentioned the scarcity of land in Colombo for real estate development. This statement alone is quite self-explanatory. There is a lack of supply, and de-

mand has far outpaced supply. The market is catering to three distinct segments, easily described as first class, business class and economy class, based on the location and living ambience. It's safe to say that there is a supply shortage in all of these categories. However, it's important to note that real estate companies also need to ensure their core competencies to thrive in this environment," he says.

Thumilan points out that oversupply in the luxury market segment needs to be viewed within the context of important factors such as the consistent flow of FDI into the country, thanks to ongoing socio economic stability and economic growth. While the government is focused on developing the Western Province into a Megapolis by 2030, many expatriates who moved out during the war years are now slowly moving back to live out their retirement in their own country.

"We can clearly see that the purchase of condominiums in Sri Lanka by high-net-worth expats has seen exponential growth. It is a growing trend for citizens in countries such as China and the oil-rich Middle East and North Africa (MENA) to immigrate to other countries for a healthier and more convenient lifestyle. Therefore, a vast number of expats are looking to buy apartments for investment, holiday homes and accommodation purposes. Apartment pricing in Sri Lanka continues to be attractive in comparison to property prices in Europe, Hong Kong or China. Also, we cannot forget the vast potential Sri Lanka has as a regional medical and educational hub."

According to Thumilan, the ratio of condominium units to the population is well below the global average as Sri Lanka's urbanisation rate is grossly lower than the global average and even than those of its peers. As published by the World Bank in 2016, Sri Lanka's urbanisation rate stood at 18% against the global urbanisation rate of 50%.

"These facts indicate there is still a lot of room for growth. I am happy to say that the market is sound, well and fundamentally driven. We see no impending issue. This is attested by the fact that we at Blue Ocean have, over the last 3 months alone, closed deals worth in excess of Rs6 billion, and expect many more deals to be closed within the next 6 months. We're a 100% Sri Lanka-owned company, and the land on which our developments are built are all purchased by us outright, prior to commencement of the development, thus allowing us to ensure the highest quality of our end product," says Thumilan.

With over four decades of experience under their belt, Blue Ocean Group has been shouldering a bulk of construction work in the country and across many fields from condominium and commercial projects to government-funded development projects. Blue Ocean's vision to achieve excellence in all their endeavors is carried out by the Group's construction arm, Link Engineering, backed by the sister companies Link Ready-mix, Link Aluminum, Contessa and Link Heavy Machineries. Blue Ocean Group claims that the root of their success is in their ability to provide professional client-oriented services on time. The Group is planning its maiden overseas expansion in the South Asian region and hopes to have an active overseas operation during the forthcoming financial year.

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# Ethics and Disciplinary Committees

## The Ethics Committee

From June to November 2017, the Ethics Committee received 07 new complaints. The Ethics Committee inquired into the prima facie nature of these complaints and recommended to the Council to commence disciplinary inquiries into them. Of these cases, investigations on 03 complaints were concluded, and the balance 04 inquiries are still being progressed. These complaints are primarily related to the alleged violation of Professional Misconduct given in the Second Schedule of the Institute's Act of Incorporation.

## Summary of complaints received over June-November 2017

**1** A complaint was received against a member who was serving as the finance officer of a company in the Middle East who is alleged to have carried out unauthorised transactions, causing a loss of \$221,100. The complainant is of the view that the member concerned has carried out Professional Misconduct. After investigation, the Ethics Committee determined that this case appeared to be one of civil nature, which does not fall within the purview of the Ethics Committee's remit.

**2** The Ethics Committee received a complaint from a member relating to a plantation company where, at the company's AGM, a shareholder had raised a query about the report submitted by the auditor regarding Going Concern, and the chairman of the company had requested the auditor to stand up and disclose his justification

to the audience. The complainant says this incident has created a bad image and disrepute to the auditor. The Ethics Committee investigation has been concluded as being frivolous and unsubstantiated.

**3** A complaint received against the partner of a firm stating that they had failed to discover material misstatement in the accounts audited by the firm.

This company has mis-stated donations of Rs100 million, and as a result, the company's tax liability as a disallowable item has been recorded as a deductible item when computing the tax liability. The same firm, through an affiliated entity, is doing the audit, secretarial works and tax consultancy services for the same client, which is an alleged violation of ethics applicable to members of CA Sri Lanka. The Ethics Committee investigation is ongoing.

**4** A complaint was received against a member, who while being the finance manager of a company, had been a partner of a firm where services were provided to the same company. The Ethics Committee investigation is ongoing.

**5** A complaint was received from a condominium representative against an auditor that the auditor had issued a management letter without conducting an audit. However, the auditor claimed his signature was forged. The Ethics Committee concluded that forging the signature of an auditor is not a matter that the Institute could

intervene in, and requested the auditor to take up the matter with the police.

**6** A complaint was received from SLAASMB against the auditor of a company, that the auditor has failed to conduct the said audit in accordance with SLAUSs. The Ethics Committee investigation is ongoing.

**7** A complaint was received from a member against an officer bearer of the Institute, stating that he had violated a Professional Misconduct in terms of the Rule 1.11 of the Second Schedule to the Institute of Chartered Accountants Act, No. 23 of 1959.

The Ethics Committee appointed a sub-committee to look into this complaint, and the ethics committee concluded the proceeding on the basis that there was no prima facie case as the complainant had failed to provide relevant evidence to substantiate the allegation against the said member.

### Disciplinary Committees

Out of the 05 Disciplinary Committee inquiries brought forward from May 2017, investigation on 01 complaint was concluded; 04 Disciplinary Committee inquiries are in progress.

#### Summary of cases referred to Disciplinary Committees in 2017

**1** The Council appointed a disciplinary committee. It was noted that the member concerned is currently a lapsed member. Therefore, the Council decided the Disciplinary inquiry would re-commence should the member restore his membership status at the Institute.

**2** Circulation of derogatory emails by a member, bringing the Institute to disrepute, violating the Second Schedule, Section 20, Rule 1.9 of the Act of Incorporation of the In-

stitute. After conducting the Disciplinary inquiry, the Council suspended the member concerned from the membership for a period of three months.

**3** SLAASMB has directed a re-audit of a listed company, as the original audit conducted by a firm of Chartered Accountants was found to be not in compliance with the Auditing Standards. A prima facie case of Professional Misconduct was established under Section 20 Rule1.1 of The Act, and the Council appointed a Disciplinary Committee for the purpose of inquiring into the conduct of such members of the firm. The Disciplinary inquiry is ongoing.

**4** The circulation of derogatory emails by a member threatening the Council and the President in relation to a decision implemented by the Council. A prima facie case of

Professional Misconduct on the part of the member concerned was established under Section 20 Rule1.9 of The Act. The disciplinary inquiry is ongoing.

**5** Failure of an auditor to present the audit opinion and the audited financial statements of a client in compliance with the accepted format and standards. A prima facie case of Professional Misconduct on the part of the member concerned was established under Section 20 Rule1.1 of The Act. The disciplinary inquiry is ongoing. ■

## BOC SIRI MEDURA HOUSING LOANS: THE ANSWER TO YOUR HOUSING NEEDS IN JUST TWO VISITS

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# The old world charm of the Italian Riviera's **Cinque Terre**

**Cinque Terre's 'five lands' or villages, with its terraced hillsides and centuries-old vineyards, have the effect of transporting travellers back in time**





THE HIKING TRAILS BETWEEN THE FIVE OFFER PICTURESQUE VISTAS

**B**ordered by the French Riviera to the north and Tuscany on the south, the Italian Riviera includes nearly all of the coastline of Liguria. Many internationally known villages and towns in the area like Portofino, Bordighera and Lerici have undergone facelifts and developments to cater to discerning tourists, but Cinque Terre retains its original charm.

Travelling to Cinque Terre (pronounced CHEEN|kweh TEHR|reh) by train from La Spezia - virtually the only access to the five villages - is like travelling back in time. Cinque Terre's cobblestone streets and hillside vineyards tell stories of long ago when the local tribes moved back to the area after they had been being driven out by the ruling Saracens. Raising their first houses in the area, they began turning the surrounding forest areas and steep slopes into cultivated terraces and planting vineyards, an industry the area is

**Since around the 12th century, Cinque Terre has become famous for its wines - two in particular, the eponymous Cinque Terre and Sciachetrà**

famed for today. Located by the Mediterranean Sea, the villages were susceptible to pirate attacks at the time, and dry stone walls and watchtowers, some of which are still standing, were built to guard them. Around this time, locals also began using the sea for commerce, trading and developing fishing as an industry.

Today, Cinque Terre looks the same. Many families occupying terraced hillside homes have lived in the area for generations. They are engaged in the same occupations as their ancestors like fishing or vine cultivation. Others have ventured into businesses like gelato and souvenir shops because hordes of tourists pour into the region during season.

Since around the 12th century, Cinque Terre has become famous for its wines - two in particular, the eponymous Cinque Terre and Sciachetrà. In addition to wines, other popular local drinks



A DELICACY IN RIOMAGGIORE IS DEEP FRIED SEAFOOD IN A CONE

when hill dwellers moved down to the coast to escape invaders. Vernazza came next, while Corniglia, Riomaggiore and Manarola grew later under the military and political supremacy of the Republic of Genoa.

One hour north of La Spezia, the central stopover to access Cinque Terre, is Riomaggiore, a fishing village with tall, narrow houses. An age-old local delicacy is deep fried seafood -everything from fish, prawns and cuttlefish to anchovies and mussels - and chips in a cone.

A short train ride from there will bring travelers to Manarola. Tourists and locals alike flock to this quaint village during summer to bathe in its crystal clear waters. The turquoise, yet freezing, water bordered by natural flat rocks make it ideal for sunbathing. The brave few who dare to climb a steep rock at the center of the cove perform daredevil-type jumps into the water similar to Sri Lanka's Galle Fort jumpers. If bathing is not the highlight of the day, holiday goers queue up to venture halfway down the walking path to Corniglia to capture an angle of the famed view of the pastel-coloured village from a distance.

Corniglia, the most understated of the five, is the only one resting 100m above sea level. The village is accessible from the train station either by a coach that arrives every 20 minutes or a flight of 383 stairs (yes, it was counted)! But once within the town, the narrow cobblestone paths are complimented by perfect Italian gelato - Corniglia's specialty. Another delicacy here is a snack of cheese and honey, which is best served with rosè or white wine while watching the night fall, which occurs around 11.30pm every night.

include grappa, a brandy made with the pomace left from winemaking, and limoncello, a sweet liqueur flavoured with lemon. Much of Cinque Terre's charm lies in the lack of visible commercial development. Not accessible by car, apart from a few very narrow roads with parking areas more than a kilometre away from the village itself, footpaths, trains and boats connect the five villages to each other and to La Spezia.

Although most of the winding railway track along the coastline is through tunnels, it makes for a picturesque vista during the five minute train ride between the five. Perhaps the only development to the area is the hiking paths that link the villages. However, only two trails remain open now, the others being damaged by landslides and storms. Cinque Terre was listed as a UNESCO World Heritage Site in 1997. Monterosso, the oldest of the five villages, was founded in AD643,



CINQUE TERRE'S  
COBBLESTONE STREETS AND  
HILLSIDE VINEYARDS OFFERS A  
LAIDBACK AND CHARMING OLD  
COUNTRY EXPERIENCE



The most talked about town, Vernazza is best visited at night for a walk along yellow-lit paths. Vernazza's characteristic spots include a piazza right on the sea, the two-storey Gothic church dedicated to Santa Margherita of Antioch and the Doria Castle that was erected above the village to defend it against naval attacks back in the day.

The largest of the five, Monterosso is the only one with a long, sandy beach that caters best to tourists. It is also the only developed one in terms of (small-scale) restaurants and a promenade with a play area for kids. Cinque Terre competes with the nearby Portofino and Amalfi Coast in south

of Italy, where the rich and famous go to enjoy coastal pleasures. Compared to the opulence offered at both these towns, Cinque Terre offers a more laidback and charming old country experience for travellers. With an ever-growing number of tourists to the area, the five villages have been thriving. Finding an abode in summer is a nightmare, so early reservation is a must. During other times, Cinque Terre is a clandestine town unaffected by the rest of the country and the world, and the perfect escape in seclusion. It is an area where days flow by like minutes, leaving you wondering where the time went. ■

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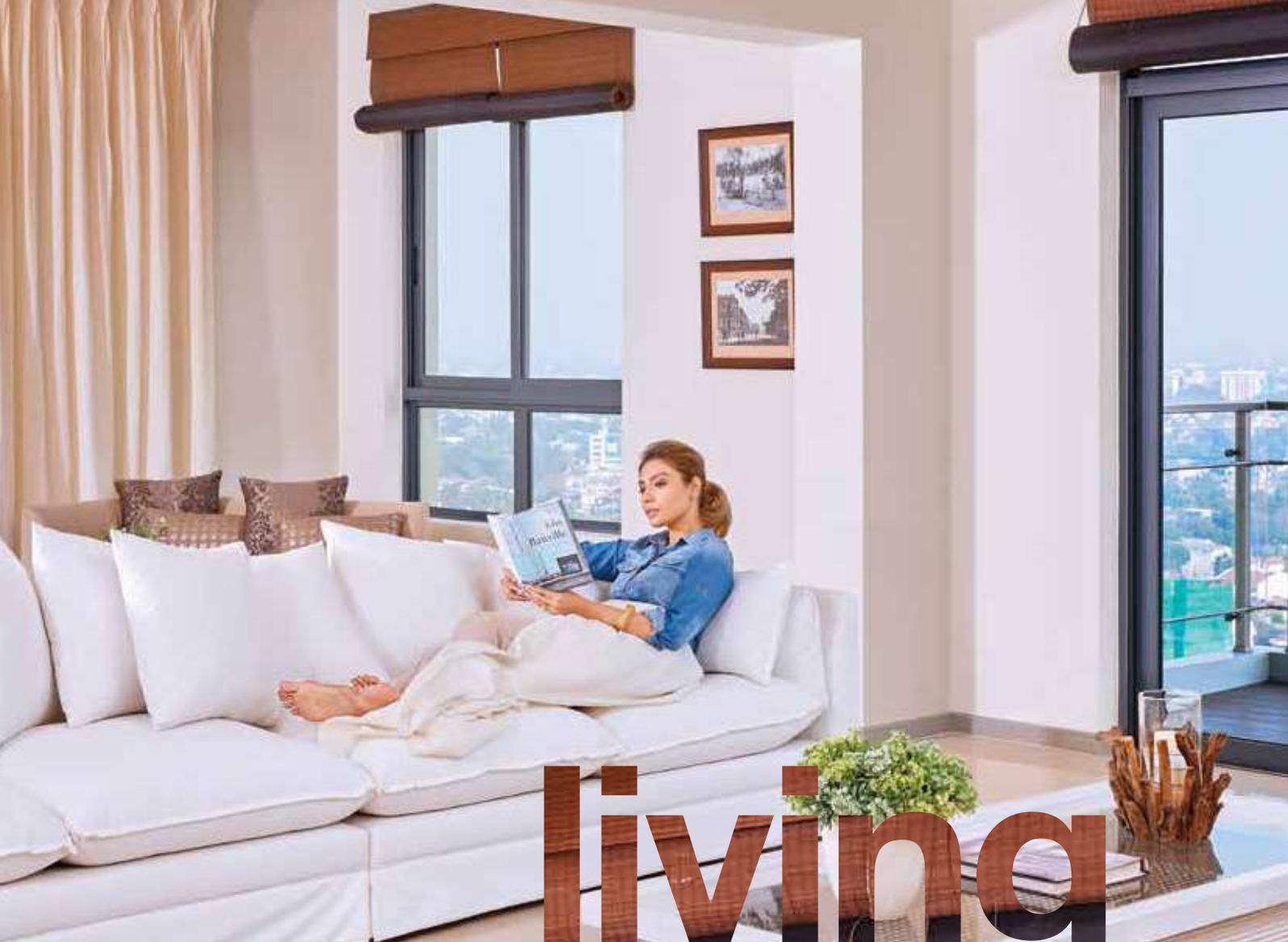
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