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## INTELLIGENCE & INSIGHT FROM CA SRI LANKA

# Aspects of Regulation

**T**his edition of Abacus looks at different aspects of regulation. Regulation helps markets prosper. But everywhere, the relationship between the regulator and the market is complex and dynamic. The global financial crisis in 2008 underlined the overexposure of the banking system to toxic assets. Many banks had too little capital to absorb losses when the sub-prime bubble hit the fan. This resulted in tough new regulations. Basel III banking rules introduced higher capital demands and stringent reporting requirements. Banks felt they were being over-regulated – and still do – but humbly accepted the new rules. Today, bankers are vocal about their displeasure only because they're emboldened by Trump's promise to ease regulations.

Sri Lanka introduced Basel III banking regulations in June 2017. The CFO of the country's largest private bank, Commercial Bank, discusses what Basel III means for Sri Lanka. The challenges are many. The traditional banking model will become obsolete with restrictions on how banks make profits. Raising capital will be tough given the small size of the capital market. Compliance costs will rise. Yet, the CFO acknowledges that the regulations will make banks stronger and less susceptible to shocks, which is a good thing.

Meanwhile, the capital markets watchdog is overhauling the SEC Act so it can take tough action against market offences. There are concerns the SEC may become too powerful and that the proposed new laws are draconian. SEC Chairman Thilak Karunaratne presents the regulator's perspective.

This edition also brings another perspective on regulation. Two partners of global audit firm BDO argue that tough regulations are here to stay. Be calm and deal with it, they suggest. Accounting professionals can make life easier for themselves by building trust, and investing in talent and technology. This will add value to their clients, the profession and financial markets.

Complex regulation is not a bad thing as long as they reflect complexities in the market. Neither is tough regulation for a market used to lax regulations. The problem arises when rules are not enforced and regulators are not held accountable.



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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CA JOURNAL'S publications consultant is Capital Media (Pvt) Ltd., 22, Flower Terrace, Colombo 7. Phone 0112577387

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# LUXURY REAL-ESTATE / CONDO SECTOR RISING TO GREATER HEIGHTS IN COLOMBO – S. THUMILAN

THE CONSTRUCTION AND REAL-ESTATE INDUSTRY HAS BEEN A MAJOR CONTRIBUTOR TO SRI LANKA'S RAPID ECONOMIC DEVELOPMENT OVER THE PAST FEW YEARS.

The country has rushed to make up for its more than two and a half decades of intermittent building activity across most segments, from high-end residential housing to commercial and office space to a variety of key infrastructure segments.

However, the world has now shown a keen interest in Sri Lanka; thanks to its ongoing socio economic stability and rapid economic growth. Global investors see afresh the opportunities that they can have by investing in Sri Lanka, which lies very close to one of the most sought after international sea trade routes.

We are very much aware that many without knowledge or previous exposure in the industry, have predicted a drop in demand, by claiming that the market has reached a point of saturation. This could not be further from the actual situation, as we are quite confident about the behavioural aspects of the luxury housing market.

Many of the Sri Lankan nationals who left the country previously during the civil war and having lived overseas until now in Europe, Australia, Canada and USA have begun returning to their country of birth seeking an abode for retirement which also will provide them with a sense of belonging and the opportunity to be amongst family and friends. Further, Our Conducive climate in comparison to the countries mentioned above and the religious cultural traditions make them reminisce the yester years.

As a result, vast numbers of expats are looking to buy apartments for both investment and accommodation purposes. Since of late, purchase of condominiums in Sri Lanka by high net-worth expats has seen an exponential growth.

Earlier this year, a research conducted amongst the high net-worth families in China found out that more than 60% of the rich families have already immigrated to another country or were considering about the prospects of immigrating. This has also become a growing trend in the oil-rich Middle East and North African (MENA) economies.

Many immigrated because they wanted better options for their children's education; were distressed about the growing pollution problems plaguing cities in China and Middle East, were concerned about food safety



**S. Thumilan**  
Group Chairman & Chartered Accountant  
ACA, ACCA, ACMA(UK), CGMA, CPA(Aus), MCSI(UK), FMAAT(SL) ACS

and water security in the country. Pollution in China and many Middle Eastern countries have made their citizens move to more livable countries such as Sri Lanka in search of a better environment and healthier lifestyle.

Accurate research by those who intend to purchase property here would indicate that the prices of apartment buildings in our country continue to be attractive in comparison to other property prices in Europe, Hong Kong or even China.

The government's commendable decision to grant a temporary residence visa for a period of two years (extendable on expiry), under the 'Dream Home' policy has encouraged many retired expatriates who are looking to migrate to warmer countries, to consider investing towards purchasing property in our country. Similar visa facilities and schemes have helped countries such as Malaysia and Dubai to successfully attract pensioners and retirees. As a result, we, Blue Ocean Group of Companies have become the undisputed

market leader in the construction of condominiums developing over 1100 units spanning 10 cities in Colombo and the suburbs including in Colombo 3, 4, 5, 6, 7, 8, Mount Lavinia, Dehiwala and Nugegoda and two more commissioned in Nuwara Eliya and Kandy.

Blue Ocean Group also possesses the experience, technical expertise, manpower and financial strength to carry out any type of small, large or massive construction projects that the government and private sector envisage in their journey towards the development of Sri Lanka.

The Group's consistent year on year improvement in financial results is a clear indication of the financial sustainability of our business model. To ensure the sustainability of the social and environmental aspects associated with our business, we continue to embrace best practices for social and environmental management. From a social perspective, our infrastructure projects across the country have a significant bearing on the communities in the area and has improved the standard of living of our stakeholders. Our work to empower these communities has made Blue Ocean Group a brand name and an exemplary corporate citizen of Sri Lanka.



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A WORD FROM THE PRESIDENT

## President's Message



“As professional accountants, we too have an underlying responsibility to ensure that we take necessary steps to protect our organisations by safeguarding its and its clients' data.”

Significant technological advancements have impacted all our professions, including accounting. Most of our services are facing the possibility of becoming automated, even though just a few decades back, we thought some services were inherently a human process. According to a study by Frey & Osborne of Oxford University on the future of employment, 98.7% of tax preparers, and 93.5% of accountants and auditors may be automated. So, we cannot ignore or avoid these changes; instead, we must embrace the same and educate ourselves on how we can mitigate risks. The technological revolution is not going to stop; and whether we are accountants, marketers or even IT professionals, we have to be ready to embrace the future with all these advancements and impacts.

Despite all these changes, the world remains vulnerable; we witnessed this in May when cyber-attacks caused havoc and crippled businesses in several parts of the world. The attack no doubt was also a wake-up call to many across diverse corporate sectors, and highlighted the need of increased focus on strengthening external and internal security.

As professional accountants, we too have an underlying responsibility to ensure that we take necessary steps to protect our organisations by safeguarding its and its clients' data. We need to take every step to mitigate data risks by enhancing security within our networks. The truth is that a single piece of business-critical data can open doors for hackers to infiltrate sensitive and vital data files; hence, it has become increasingly important for firms to continuously carry out assessments, conduct proper security planning and implementation, as well as educate all employees on how to shield an organisation from such attacks.

An accountant plays a critical role in economic development by instituting transparent and quality financial reporting, which in turn helps create a sound financial landscape for the country. But, the role of the accountant has also changed drastically over the past few decades, and we have moved away from conventional roles to take on more leadership positions across the corporate world.

Therefore, as a responsible professional body, CA Sri Lanka has introduced various initiatives to support and educate our members, so they will remain ahead of the changing times. To fulfill this continuing objective, the institute launched the CPD Online Academy in June, to help our members both in Sri Lanka and overseas educate and develop their professional competence covering key areas such as leadership, negotiation skills, tax, demand-side management and cyber security.

As a profession, we have to make it work; and for that, we need to understand reality and accept the challenges by embracing change. This will help us work together and achieve sustainable success.

**Lasantha Wickremasinghe**  
President  
CA Sri Lanka

# PERISCOPE



## UK regulator probes Rolls-Royce auditor's work

The UK's accounting and auditing regulator, the Financial Reporting Council (FRC) is investigating how KPMG checked the books of aero engine maker Rolls-Royce, embroiled in a Transatlantic bribery scandal.

In January 2017, the British firm agreed to pay \$863 million to settle a bribery probe out of courts. It was also investigated by the US. Rolls-Royce was charged for bribing middle men to secure six countries including China, India, Indonesia, Nigeria and Russia. It was the Serious Fraud Office's (SFO), the UK's anti-graft body, biggest case.

The SFO has probed more than 30 million documents and conducted over 200 interviews of current and former employees. The office assigned 70 sleuths to the case, which cost \$17 million to investigate.

In May, the FRC announced it was looking into KPMG's audit of Rolls-Royce Group's financial statements for the period 2010-13.

"We are confident in the quality of all the audit work we have completed for Rolls-Royce," the audit firm said in a statement. The audit firm said it was

**\$863 million**

Rolls-Royce coughs up settlement out of court

A team of employees polish the exterior bodywork of a Ghost automobile at Rolls-Royce Motor Cars Ltd



## Indian foodtech raises \$155 million

Online food delivery startup Swiggy raised \$80 million in a funding round in May 2017, taking the venture capital total since founding to \$155 million. The funding round was based on a \$400 million valuation for the India-based startup. The funds will be used to introduce new services and increase technology investments in software development, automation, data analytics and machine learning.



**\$155 million**

Swiggy's total funding since its launch in 2014

South African internet and media group Naspers led the funding round, which involved venture capital investors like US-based Bessemer Venture Partners, Accel India, SAIF Partners and Norwest Venture Partners. Founded in 2014, Swiggy operates in eight Indian cities, delivering food from over 12,000 restaurants. In 2016, the startup reported a six-fold increase in revenue and a 35% decline in transportation costs. In 2016, online food delivery sales in India grew 150% to \$300 million.

# PERISCOPE

## China's economy advances while America remains trapped



Although far from ideal with its stable government, China continues to advance its economy, while the United States is dragging itself deeper into legislative gridlock due to ideological conflicts regarding the role of the government in its economy.

Analysts have pointed out that China has the potential to become a world leader in several areas including economy and international relations, while America has been embroiled in turmoil over its legislature since President Trump assumed office earlier this year.

The American community is polarised between Trump supporters and opponents. President Trump's supporters are backing policies that aim to reduce trade and advocate for privatisation of markets and public goods, Medicare, air traffic control and infrastructure. Meanwhile, his opponents support free trade, environmental protection and accessible health care.

Even though President Trump issued executive

**China has adopted numerous measures, both big and small, that are not only shaping its own economy, but that of the whole world as well.**

orders that impact the American economy, none of them have been of great significance. Meanwhile, China has adopted numerous measures, both big and small, that are not only shaping its own economy, but that of the whole world as well. Projects such as China's 'One Belt, One Road' network will have a massive economic impact on many regions across the world by connecting Europe, Asia and Africa.

The difference between China and the US is partially due to the distinction between the types of administration. With China's authoritarian rule, it's possible to adopt policies at the top without ever having to listen to ordinary people. However, in the US, most major policies can only be passed after securing the cooperation of the president and the Congress, and this is a time-consuming process.

With President Trump attempting to implement a Muslim ban, the US is losing its economic and moral superiority to China. While America is caught in political paralysis, China's economy is leaping forward in the short to medium term.

**Forex reserves reach \$6.7 billion**

**Sri Lanka's forex reserves rose to \$6,745.8 million in May from \$5,048 million in April, helped by government bond sales and dollar purchases by the Central Bank, official data show. Sri Lanka raised a \$1.5 million sovereign bond in May.**

### China biggest lender & the US biggest donor to Sri Lanka in 2016



With China getting increasingly involved in Sri Lanka over the last 10 years, it has replaced Japan and the ADB as the top lender to Sri Lanka. According to official data, in 2016, China has extended the most loans (\$440.76 million) to Sri Lanka, while the United States had given \$23.83 million, or 44% of all grants that do not have to be paid back.

Actual disbursement data from the finance ministry indicate that Sri Lanka had borrowed \$1,586.2 million from foreign governments and multilateral agencies for projects and policy loans. Accordingly, the World Bank extended \$354.86 million in loans and \$9.28 million in grants, while the Asian Development Bank provided \$336.63 million. UN agencies gave \$22.63 million in loans and \$9.7 million in grants. Japan provided \$159.7 million in loans and \$7.01 million in grants, while Germany gave \$5.43 million in loans and \$3.98 million in grants.

However, when looking at these figures, it's important to note that some loans taken by state enterprises are not included in central government debt. (Economynext.com)

## China's super demographic

China is home to the largest population of grandpas and grandmas in the world. Its population over the age of 60 is 220 million, and this is already shifting the Chinese economy away from exports towards consumption and tourism. About 5 million of them travel overseas annually; and this is forecast to double by 2030. Travel companies are responding by offering more group tours and cheaper rates for accommodation.

According to Bloomberg, 33% of China's GDP in 2050 will come from products and services targeting this demographic, presenting plenty of opportunity business like homecare, online delivery services, and smart devices and monitors.

"There's reason for optimism that China's entrepreneurs can figure out low-cost models that work at home - and quite possibly overseas," Bloomberg says. "For China's current generation of seniors, having come of age at a time of global isolation and domestic hardship, that's a level of influence few could have imagined in their youth."

**220 million: China's population over 60 years**



## European SMPs bleak about 2017

Small and medium accounting practices (SMPs) are not particularly cheerful about their prospects in 2017, an International Federation of Accountants' survey finds.

According to the 2016 IFAC Global SMP Survey, only 25% of respondents in Europe anticipate revenue growth this year.

Less than half of SMPs reported increasing fee revenue in 2016. "Europe was generally exhibiting slower growth than other regions," IFAC said. By contrast, a significant ma-

majority of respondents from North America (64%), Africa (58%), and Australasia and Oceania (57%) reported an increase in revenue, it said.

Europe's SMPs provide SMEs a range of services including corporate advisory, management accounting, business development, human resources and employment services. SMEs in Europe are bedevilled by economic uncertainty, rising costs and difficulties in accessing finance.

According to the IFAC

survey, SMPs' top four challenges in Europe are keeping up with new regulations and standards, attracting new clients, experiencing pressure to lower fees, and creating differentiation from competition. These are the same top four challenges for major auditing firms as well, IFAC says.

Investing and choosing appropriate technology, and staying current with software, are other challenges SMPs are dealing with. Finding and retaining qualified staff is another.

### Changing tack for fatter margins

**53** The number of non-bank finance companies

**6%** Finance companies' share of financial system assets

**Rs853 bn** Non-bank finance company assets

Non-bank finance companies are changing their financing and lending habits as margins come under pressure from rising interest rates. Net interest margins fell to near 8% in the second quarter of 2017 from almost 9.5% in early 2016. First Capital Research says margins will continue to dip further on rising interest rates because deposit rates readjusted quicker than lending rates and private sector credit growth declined from 25% in 2015 to around 15% over 2017-20. Nearly 70% of loans are in leasing and hire purchase, with interest rates locked in for five years on average, while over 90% of deposits are fixed for a year.

To overcome this challenge, finance companies are borrowing more to fund loans. The share of deposits to total funding fell to 56% in 2016 from 63% a year earlier. Borrowings are also growing faster than deposits. They increased 50% in 2016 to Rs375 billion, while deposits grew at less than half the pace. On the lending side, non-bank finance companies are adjusting their lending portfolios to more short-term loans away from leasing and hire purchase. In 2015, long-term loans accounted for 66% of total loans, declining to 53% in 2016.

# PERISCOPE



**We're, how do you say, Ouvrir!**

Global markets heaved a sigh of relief, though briefly. The euro reached a six-month high against the US dollar, and Japanese-listed stocks rose to a near-11-year high no sooner than Emmanuel Macron won the French presidential race, taking the steam out of a global populist wave that roiled markets for over a year. "Volatility faded from the US equity and bond markets," Bloomberg reported, after the defeat of Macron's anti-Euro rival Marine Le Pen. Macron's win was largely predicted and factored in, which meant most gains were short-lived.

## Slow '16

# 4.8%

Sri Lanka's economic growth decelerated slightly to 4.4% in 2016 from 4.8% a year earlier, according to the Central Bank, dragged by policy uncertainty, bad weather and a slow global recovery. The banking regulator estimates growth will pick up to 5% in 2017 and 6% the following year.



## Chemical brothers:

ChemChina and Sinochem are planning a merger that will create the world's largest chemicals management group. ChemChina hopes the merger will help it finance its recent \$43 billion acquisition of Swiss agrochemicals company Sygenta.

## Electricity Grid

Electric! Bangladesh will import 2,000MW of electricity from India over the next two years. The two countries are yet to agree on pricing, but India has offered an additional 60MW as Bangladesh hopes to achieve 100% electrification by 2018.

## Hip Deal

**US handbag maker Coach acquired smaller rival Kate Spade for \$2.4 billion in a bid to reach younger consumers. Nearly 60% of Kate Spade's customer base is millennials.**



## Marcus and Spenders

Goldman Sachs has launched an online lending platform targeting consumers and small businesses. The platform, called Marcus, particularly targets consumers struggling to service high-interest credit card debt, according to CB insights, with loans in the range of \$3,500-30,000. The investment banking group's CEO Lloyd Blankfein says Marcus is an opportunity "to capture accretive returns without the burden of legacy costs and fixed infrastructure".

## Asia-Europe freight rates easing

A two-month ocean freight capacity shortage on the Asia-Europe trade route showed signs of easing by May 2017, but traders still suffer from high rates.

Higher-than-expected demand, particularly in China, bad weather and shipping lines restructuring their alliances saw space shrink for cargo between Asia and Europe. Traders competing for space and additional surcharges imposed by liners saw freight rates more than double from a year earlier to \$1,700 per container box by April 2017.

According to Lloyd's List, shipping lines repositioning more capacity has resulted in freight rates falling to \$1,235 by May 2017, still almost 100% from a year ago. "We expect this trend to continue, as space availability is no longer a challenge for shippers," said Drewry, the global maritime consultancy.

However, European shippers are unhappy that liners introduced a peak season surcharge during this period, especially since the capacity shortage was partly self-inflicted, Rogier Spoel, air and ocean freight policy adviser at the Dutch shippers' organisation, says.

# 100%

Asia-Europe freight rate increase from a year ago



## Tesco pays 214 million pounds in accounting scandal

Britain's largest retail chain Tesco was ordered to pay a fine of over 214 million pounds (\$269 million) as compensation after an accounting scandal revealed that the company has overstated its profits. Approximately two billion pounds was wiped off Tesco's share price after it uncovered the accounting error, and it subsequently posted the biggest loss in its history.

In September 2014, Tesco reported that it had overstated profits by 263 million pounds, a figure that increased to 326 million pounds following an independent audit. The inflated profit figure was the result of Tesco bringing forward

In September 2014, Tesco reported that it had overstated profits by **263 million** pounds,

a figure that increased to **326 million** pounds following an independent audit.

rebates from suppliers. According to the Financial Times, to achieve demanding financial targets, the company tried to juice its profits by agreeing to in-store promotions in return

for an upfront fee.

Analysts indicate that a misplaced emphasis on making money from supplier contracts rather than customers' shopping frequency was one of the main factors behind the sales slump in Tesco's UK market. The company incurred a total loss of 6.3 billion pounds in 2015.

The Financial Conduct Authority, the regulating body of the UK, claimed that Tesco had committed market abuse by allowing a false market in its shares and bonds. Investors paid a higher price than they would have paid had there not been a false market, and those who purchased more than they sold in the period.



Spectators watched the launch of ISRO's Polar Satellite Launch Vehicle (PSLV-C37) at Sriharikota on Feb. 15, 2017

## Leave your problems on Earth

India launched a \$1.5 billion telecommunications satellite in May 2017, a gift to its South Asian neighbours. Countries in the region, expect Pakistan who de-

clined the offer, will enjoy free access to the satellite, but will have to fund their own ground infrastructure. India was commended for its space diplomacy.

## That global tilt

**Asia's economy is expected to grow 5.5% in 2017, according to the International Monetary Fund, up 30 basis points from a year ago. Growth will remain strong at 5.4% in 2018, "as the region continues to be the leader of global growth," the fund says. By 2018, India is expected to grow 7.2%, followed by China at 6.2%.**

## Successful revenue reforms key to stronger public finances: Fitch

Sri Lanka's budget for 2017 is broadly in accordance with IMF targets, and comprises a number of positive steps to improve the weak revenue base. But, Fitch Ratings believes the impact of revenue reforms will depend on the success of its implementation.

The reforms included a VAT increase from 11% to 15%, along with tax measures announced in the budget. A controversial 10% capital gains tax was scheduled to be introduced this year; but some analysts suggest that it would have a significant cascading effect on the already-declining stock market.

The government is expected to generate more revenue from the simplification of the tax system and the removal of some tax exemptions and concessions. The government projects revenue to increase by close to 27% in 2017, pushing the revenue/GDP ratio up to nearly 15% of GDP from an estimated 12.9% in 2016.

The 2017 budget targets a fiscal deficit equivalent to 4.6% of GDP, down from an expected 5.4% in 2016 and 7.4% in 2015, when the deficit widened mainly as a result of sharp public sector wage increases. Fiscal consolidation will be helped by tax reforms that should go some way in bolstering the weak revenue base, which is a key reason for the sovereign's weak fiscal finances.

# PERISCOPE

## Be skeptical: IAASB proposes new auditing standard for estimates



Significant changes in how auditors evaluate accounting estimates and related disclosures have been proposed by the global auditing body International Auditing and Assurance Standards Board (IAASB).

According to the International Federation of Accountants, the changes will require auditors to sharpen their focus on risks of material misstatements arising from accounting estimates, and to address those risks with more granular audit requirements.

Accounting estimates used in many financial statements are often complex and require judgment. Sometimes, there is uncertainty about how estimates should be treated. The new standard proposes to eliminate these difficulties. "It's especially important that auditors are required to design and perform procedures to ensure estimates' reliability," says Arnold Schilder, IAASB chairman. "The proposed

standard will bring significant changes to many audits, but particularly to audits of financial institutions like banks and insurers, given the recent shift to accounting for expected credit losses."

The proposed standard was developed following consultation with regulators and practitioners, including those who audit small and medium businesses.

The proposed standard promises to do three things: First, enhance requirements for risk assessment procedures to include specific factors related to accounting estimates, namely complexity, judgment and estimation of uncertainty. Second, it sets a more detailed expectation for the auditor's response to identified risks, including augmenting the auditor's application of professional skepticism. Third, the applicability of the standard is scalable regardless of the size or sector of the business or audit firm.

### 20 years a-slumber

June 6, 2017, marks 20 years since the establishment of the Bay of Bengal Initiative for Multi-Sectoral, Technical, and Economic Cooperation (BIMSTEC), a regional organization involving a group of countries in South Asia and South-East Asia, including Sri Lanka.

BIMSTEC, launched in 1997, accounts for \$ 2.7 trillion of GDP, 21% of the global population and a mere 7% of intra-regional trade. An FTA was mooted in 2004, but never materialised.

"BIMSTEC should not have high hopes on an FTA coming into operation. Indications are that it will drag on for a long time," says the late Dr Saman Kelegama, Executive Director of the Institute of Policy Studies, a think tank.

"In this situation, more emphasis should be given to trade facilitation via liberal transit, business-friendly customs and transport corridors. Such a process will partly address some of the non-tariff barriers in the region and catalyse trade," he argued.

**\$2.7 tn** – Combined GDP of BIMSTEC member countries

**21%** - South and South-East Asia's share of world population

**7%** - Intra-regional share of total trade of BIMSTEC members



### Blank bullets:

There was no \$110 billion US-Saudi arms deal. The highly touted sale is mostly letters of interest and pre-existing contracts, says Brookings Institute, a Washington-based public policy think tank.

## China's great wall of debt

# 5%

Moody's forecast for China's economic growth by 2020

Credit ratings agency Moody's downgraded China for the first time in 28 years as debt mounts.

China's credit rating was downgraded Aa3 from A1 and its outlook changed to negative from stable. Moody's said China's debt levels were expected to increase to 45% of GDP in the years ahead with reforms only likely to slow down growth to 5% by 2020.

## Sharp decline in volume, quality anticipated at tea auction



Sri Lankan brokers are anticipating a sharp decline in both the quantity and quality of tea offered at Colombo auctions after heavy rains triggered floods and landslides in key growing areas, disrupting production and transport. Most of the low-grown planting sub-districts in Kalutara, Galle and Matara were inundated once again due to torrential rains, with rainfall figures well in excess of 500mm, said John Keells Ltd.

## Indian techies hit back

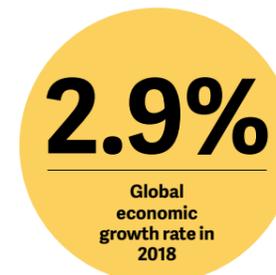
\$150 bn – India's IT sector  
3.9 mn – Number of people employed by India's IT sector

The Forum for IT Employees (FITE) and others are laying the foundation to unionise India's \$150 billion IT sector, which employs 3.9 million people. FITE claims to back over 1,000 employees and is seeking official recognition as a union. If it's successful, it will be India's second IT union after the New Democratic Labour Front-IT Employees Wing. Both groups are mobilizing members and petitioning state officials against opaque appraisal processes and potential mass layoffs.



India agreed to extend Sri Lanka a \$318 million loan to develop the island's railways. The fresh credit line extended in June 2017 follows four earlier loans totaling \$966 million that were spent on developing the Northern and Southern railway lines and procuring rolling stocks.

## Good news for the global economy



The World Bank forecasts global growth will hit 2.9% in 2018, up from the 2.7% it expects this year. The strengthening is expected to come from an acceleration of growth in both mature (Europe and the US) and emerging markets. The bank forecasts global trade will grow 4% this year, up from 2.5% in 2016, reversing the declining experienced in recent years.

The positive outlook is not without its risks. A high level of debt risks slowing down China's economy. This could push down commodity prices of many emerging markets that depend on commodity exports. Higher barriers to trade from protectionist policies stemming from the US could hurt trade and slow down the global economy.

## New industrial zones to bring Rs1.6 trillion investment

The government has allocated land plots on 35-year leases for investors in new regional industrial estates around the island, expecting to attract Rs1.6 trillion in investments. Lease rentals will be determined by the government's Chief Assessor, according to a proposal by the Ministry of Industry and Commerce that was approved by the Cabinet of Ministers in May 2017.

The proposal is to lease out 23 land parcels in industrial estates in Buttala, Nalanda (Matale), Nalanda Ellawala, Galigamuwa, Kalutara, Millawa, Minuwangoda, Mathugama, Dambadeniya, Nurana, Makandura (West), Dankotuwa, Udukawa and Trincomalee. (EconomyNext)

### All gas!

Qatar's isolation by its Saudi Arabia-led neighbours is more to do with natural gas, Bloomberg says. Qatar is the world's richest nation (annual per capita of \$130,000) and the largest LNG exporter. Once a Saudi vassal, Qatar used its gas wealth to carve out an independent role for itself, and the rest of the region has been looking for an opportunity to clip its wings.

By  
Devan Daniel

# Large hotel chains disrupted by digital tech

Smaller hotels are thriving because online booking and review sites leveled the playing field. Large hotel chains are responding by investing in digital technology but it's not enough

Large hotel chains in Sri Lanka are investing in digital technology to counter the disruption caused by online sites like Agoda and Trip Advisor, which allow people to book hotel rooms online, write reviews and rate hotels based on their experiences. But, deploying digital technology alone is not going to be enough.

Smaller, unlisted hotel companies are taking a large share of the number of tourists arriving here in the post-war tourism boom. This is forcing established larger hotels to reduce prices to compete, eroding margins as they struggle to maintain high standards that are often compromised as a result. Rising costs of energy and staff training are eating into margins as well. As a result, Sri Lanka's large listed hotel chains have not reached their full earnings potential despite the boom.

In five years to 2015, total spending by tourists quadrupled to \$3 billion, but listed hotel companies are not matching this growth. During this period, total profits of 36 listed hotel companies grew at half this rate to \$51 million.

Two of the largest hotel chains, managed by listed conglomerates Aitken Spence and John Keells, have seen revenues increase by less than a third the rate of total tourism

**In five years to 2015, total spending by tourists quadrupled to \$3 billion, but listed hotel companies are not matching this growth.**

spending growth during this period. The industry is struggling with profitability, declining 8% during 2015 from a year earlier. One explanation is the rapid rise in the inventory of hotels, creating excess capacity in certain areas.

"This has led to unhealthy competition, which is based on price per se, thereby challenging the long term profitability of the entire industry," Aitken Spence Chairman Harry Jayawardena told shareholders in the company's 2015/16 annual report. Aitken Spence operates a chain of five-star hotels in Sri Lanka under the Heritance and Thurya brands.

But, the hotel room glut is not the only reason behind the poor performance of large hotel chains. Experiences matter, and this is at the heart of why smaller hotels are threatening larger chains.

According to the 2015 Central Bank annual report, Sri Lanka has little to offer tourists and is a low-cost, value-for-money destination compared with others in the region. The established players, it claims, are struggling to get prices for their five-star establishments. The average tourist doesn't spend more than ten days here but spends more - \$164 a day in 2015 up from \$94 in 2011, according to the Tourism Development Authority.

Online review sites allow guests to share

Perspective



## Perspective

their experiences and rate a hotel based on these experiences. Several smaller hotels here have customer ratings on Trip Advisor on par or even better than most five-star hotels run by the larger listed chains because they deliver value-for-money experiences.

“Many price-sensitive tourists are coming in and several new properties have come up offering less than \$20-40 a night; they don’t spend too much on accommodation but on experiences,” says Dileep Mudadeniya.

Mudadeniya is Head of Brand Marketing for Cinnamon Hotels and Resorts, as well as Vice President of listed conglomerate John Keells Group, which manages a chain of five-star hotels under the Cinnamon brand.

National annual hotel occupancy rates have fallen from 77% in 2011 to 74% in 2014, official data shows, despite tourist arrivals doubling during this period and room capacity increasing 24%. The plausible explanation for this could be an informal sector, significant in size according to the Central Bank, which is attracting more guests.

Online booking sites have almost eliminated tour operators who, in the past, acted as the go-between, linking guests abroad with hotels here. It was they alone who decided which hotels to fill. Big hotel companies had enough money to woo these operators based in different parts of the world, and thereby fill their hotel rooms.

Smaller companies did not have the capacity to reach out to these markets. Advertising in international magazines was expensive too. But, the digital disruption over the last few years has levelled the playing field.

Today, you don’t need a big budget for international marketing and advertising. Any hotel can register with an online hotel review and booking site like Trip Advisor, upload a picture and solicit bookings. The site keeps a 20-30% margin on the room rate and helps promote the hotel.

Smaller hotels are less formal and staff engage guests exuding a sunny side. This informality allows smaller hotels to be more flexible and solve problems faster, unlike the more formal larger hotels where staff are straight-jacketed with formalities. When it comes to the larger hotels boasting star-ratings and pricier services, guests are less forgiving of slipups.

“People always rate a hotel according to what is more important to them,” Mudadeniya

**Large, established hotel chains are competing on price not just with smaller hotels in Sri Lanka, but other destinations in the region that offer much more in terms of the quality of service and experiences for lower prices.**

says. “We should be flexible in our training so staff can adapt to any situation, which smaller hotels may be better at doing than the larger established chains.”

The larger listed hotel chains Aitken Spence Hotels and John Keells Hotels are investing in new properties and upgrading existing ones. These investments could take longer than expected to bring returns if, because of the digital disruption, the chains have to compete on equal terms with smaller hotels on price. Over the last few years, both these firms have invested heavily on building their own digital capabilities to counter the challenge from online booking and review sites.

They’ve built dedicated teams and invested in digital technology to monitor guest reviews and ratings on sites like Trip Advisor. They respond to negative reviews by directly engaging the unhappy guest, making amends and generating a return visit. But often, it stops there. Because of their rigidity, the niggling problems that lead to complaints are left ignored.

Large chains are also investing in search engine optimisation and data analytics tools to boost their online presence and attract direct visits and bookings on their own websites. Social media-savvy teams boost their hotels’ presence on social media sites. John Keells organises bloggers conferences in a bid to woo opinion-makers in the online travel blogging space.

“People want to go to a smaller place where reviews are pretty good,” Mudadeniya says. “This is where technology hits you, so you cannot ignore the digital challenges.”

But responding to the challenge with digital technology alone is not enough.

“We need to make sure our service standards are great so we can attract guests willing to pay the price for the value we offer,” he continues.

The large established hotel chains are competing on price not just with smaller hotels in Sri Lanka. Their competitors include other destinations in the region that offer much more in terms of quality of service and experiences for lower prices.

Smaller hotels have smaller overheads and better control over their service deliverables and standards. Not all of them are cheap overnight stays for backpackers. There are premium-priced hideaway villas for honeymooners as well as hotels catering to the needs of middle-income families. ■

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TRUE ENTREPRENEURS:

# PUSHING BOUNDARIES

THESE KIDS FROM **MAHAMAYA GIRLS' COLLEGE** HAD AN IDEA FOR A CEYLON TEA-BASED HEALTH DRINK THAT LOWERS THE RISK OF CANCER AND DIABETES. THEY DEVELOPED THE FORMULA AND BREWED THE SWEET-TASTING BEVERAGE—THEY DIDN'T HAVE TO—BECAUSE THEY WANTED TO WIN THE CASL BUSINESS PLAN COMPETITION



These A-Level students from Mahamaya Girls' College Kandy won the CA Sri Lanka Business Plan Competition 2017, and they want to start their own businesses after they finish school and university.

From left: Asmitha Bandara, Dinithi Abeykoon, Nisali Dissanayake, Oshadi Abeysinghe and Kalani Gedarakumbura



**THE TEAM FROM MAHAMAYA OVERCAME TWO CHALLENGES TO BAG THE CA SRI LANKA BUSINESS PLAN CHAMPIONSHIP TITLE:**

GENERATING A VIABLE BUSINESS IDEA WAS THE FIRST CHALLENGE. THE SECOND WAS COLLECTING MARKET AND INDUSTRY DATA. THESE CHALLENGES ARE TYPICAL FOR ANY NEW BUSINESS.



**M**ahamaya Girls' College, Kandy, won the CA Sri Lanka Business Plan Competition 2017 for a natural drink with several health benefits including reducing the risk of cancer, diabetes and heart failure. But, it was not just the idea and a business plan rife with hypothetical projections that set it apart from its competitors. The five students representing Mahamaya pushed the boundaries and did more than what was required.

CA Sri Lanka introduced the competition in 2016 to challenge the traditional learn-by-rote model and nudge A-Level commerce stream students towards entrepreneurship. The accounting body invited around 60 schools in five districts to submit a five-member team for the 2017 edition. The task: Generate an idea for an innovative product or solution, and prove its viability with a business plan.

The Mahamaya team, comprising Asmitha Bandara, Dinithi Abeykoon, Kalani Gedarakumbura, Nisali Dissanayake and Oshadi Abeyasinghe, called their branded health beverage product 'Steaspace' after the three main ingredients: allspice, stevia and tea.

Allspice is grown in backyards here in Sri Lanka and used as a remedy for stomach ailments. It got its name when the English, encountering the plant in the 17th century, thought the fruits tasted like a combination of clove, cinnamon and nutmeg. Allspice is an important ingredient in Central American and Middle Eastern cuisine, gaining popularity in developed markets for its health benefits. It's rich in antioxidants, and is known to boost the immune system and increase blood circulation. Studies show that allspice reduces the risk of heart failure, cancer and diabetes. But, it's bitter.

Stevia is a natural sugar-free substitute recognised by the World Health Organisation to prevent non-communicable metabolic diseases, a menace in rich and poor countries alike.

Demand for stevia is growing as food companies combat falling soda sales with healthier alternatives. Pepsi reported \$6.4 billion in sales in 2016, a quarter of that from health drinks and snacks. The firm invested \$3.5 billion since 2011 on research and development into healthy food. Coca-Cola is also investing in alternative products. It's investing in R&D in Sri Lanka, carried out by listed Hayleys for a tea-based, low-sugar health drink.

The five students did more than prepare

a business plan for their idea, which was all they were required to do. Meeting at the team leader Nisali's home, they developed the formula. "We knew the idea was good, but we wanted the judges to taste it themselves," Nisali says.

They spent hours in the kitchen perfecting the recipe, testing it on family and friends after they got sick of tasting hundreds of cups themselves.

The five recall being nervous when they offered the drink to the judges at the regional finals in Kandy and the all-island finals in Colombo in March 2017. "They hesitated, unsure about tasting it. They asked us so many questions that we thought they wouldn't drink it," Asmitha says. "But they did. They liked it!" she smiles.

The girls felt intimidated and nervous competing against Colombo schools. "They didn't look friendly, but we calmed our nerves. We knew our business plan was solid, and we had a good idea," Dinithi says. Out of 60 schools, seven made it to the grand finals: Visakha Vidyalaya and Royal College from Colombo; Maris Stella College, Negombo; Richmond College, Galle; Maliyadeva Balika Vidyalaya, Kurunegala; Chundikulili Girls' College, Jaffna; and Mahamaya.

Winning the championship gave the five girls the opportunity to represent Sri Lanka at the BlueShift International Business Case Competition organised by the Queensland University of Technology (QUT) in Brisbane.

The team from Mahamaya overcame two challenges to bag the CA Sri Lanka Business Plan championship title: Generating a viable business idea was the first challenge. The second was collecting market and industry data. These challenges are typical for any new business. The first challenge was the hardest. Each of the five assumed their business idea would involve a tech-based startup. Examples of successful startups are everywhere and the possibilities are endless. But, they drove that thought out of their heads. Most teams were likely thinking about tech, too.

"We told ourselves early on that we're preparing a business plan for investors, not a panel of judges. We didn't want to make this an academic exercise," says Nisali, a Sri Lanka schools swimming champion. "This forced us to look for business ideas that would 'really' differentiate us from the rest," Asmitha adds.

The girls wanted the business idea to have a positive impact on the broader economy.

For this, they narrowed their search to the agriculture sector. Agriculture's share of GDP is less than 10%, but employs a third of the workforce. Productivity and value addition are low. Land is limited, and so is water. The many challenges had many opportunities, they felt. The ideal business venture will have to solve these problems, but first, the team had to pin down a product. It had to appeal to a growing health-conscience consumer segment.

While researching online for plants and herbs with health benefits, the students came across a plant called allspice. Most of them grew the plant in their backyards, not knowing how popular it was elsewhere in the world. "Allspice berries are popular in many countries. Our idea is unique because we're processing the leaves to make a health drink," Nisali says. This gave them another idea. Why not combine it with tea, Sri Lanka's main export crop that's mostly shipped in bulk.

They now had two natural ingredients known for their health benefits. For fun, they brewed a cup of tea adding a few allspice leaves from the backyard. It was too bitter. Without sugar, the beverage would never sell; add sugar, and lose the health benefits. The kids researched alternatives for sugar and found stevia, a natural sugar-free sweetener. "We knew then that we had bagged the competition," says a beaming Kalani.

They had the product. The next step was crafting the business plan.

According to the A-Level syllabus, a business plan comprises four main parts. One, a market plan containing industry and market analysis that identifies a target market, and analyses the competition and their strategies. Second, an operational plan that looks at factory layout, administration, production and other procedures. The third part of a business plan is a human resources plan that lists the required management and technical skills. Fourth, a financial plan that includes projected cash flows, costs and profitability. At the A-Level exam, students are tested for their theoretical knowledge, analysis and forecasting.

According to The Economist magazine, a business plan involves fantasising about what a firm hopes to achieve. While useful to investors to understand the risks and rewards, business plans typically read like travel guides: The actual experience is entirely different. For CA Sri Lanka's Business Plan

Competition, the girls wanted to base their plans on real-world data as much as possible to show the judges they meant business. But, they couldn't go far.

They approached food companies and supermarket chains for information on supply chain management, processes, staff, and consumer and market information. "No one helped us. We found plenty of data online for beverage markets in other countries. But here, there's nothing. This made market research a pointless exercise," Kalani says.

However, there was some comfort. The theoretical parts of the business plan accounted for around a third of the total marks at the CA Sri Lanka Business Plan Competition. "Our main focus was the idea.

The purpose of the competition is to foster entrepreneurship. Entrepreneurship begins with an idea," says Saman Bandara, head of the judging panel and senior lecturer at Kelaniya University. The panel of judges comprised accounting professionals and business executives.

He says Mahamaya Girls' College won the competition because they had a unique idea, built a case to prove it was viable, developed the formula and even let the judges taste the beverage.

"We showed how the product can benefit people's health and the rural economy. Allspice is easy to grow in backyards, and there's no definite climate. The struggling tea industry, which has little value addition, will also benefit. That's why the judges liked our solution," Dinithi says.

When CA Sri Lanka launched the Business Plan Competition, the institute's President Lasantha Wickremasinghe articulated its vision saying, "At a time when Sri Lanka is at the threshold of renewed development, there is bigger demand for entrepreneurs to take the lead in helping the country move forward." CA Sri Lanka can feel encouraged. Its business plan competition is enticing students to the excitement of being entrepreneurs.

While Nisali and Asmitha sit for their A-Levels this year, Dinithi, Kalani and Oshadi have a year more to go. All five of them aspire to enter university and continue their higher studies. But, taking part in the business plan competition gave them a taste for entrepreneurship. The five hope to start their own businesses someday. They relish the challenge and the promise of independence. "We don't want to depend on anybody," Oshadi says with defiance. ■



**WINNING THE CHAMPIONSHIP GAVE THE FIVE GIRLS THE OPPORTUNITY TO REPRESENT SRI LANKA AT THE BLUESHIFT**

INTERNATIONAL BUSINESS CASE COMPETITION ORGANISED BY THE QUEENSLAND UNIVERSITY OF TECHNOLOGY (QUT) IN BRISBANE



# A FOR-PROFIT THAT BEHAVES LIKE A NOT-FOR-PROFIT RECEIVES RS300 MILLION IN FUNDING

Profits aren't the biggest priority at MA's, a **Rs700 million** food company. Yet, it has just received Rs300 million in venture funding

**D**evelopment-focused MA's Foods has not been performing well financially over the past couple of years, says its CEO. But this has never discouraged the company, for which profit is not the number one priority - and they are serious about it. MA's is a food company that supplies a broad range of organic, fair-trade and ready-to-use products including spices, seasonings, curry pastes and sauces to the food manufacturing industry in Sri Lanka and abroad. Over the past 30 years, the family-run company has evolved from a basic ingredient supplier to an 'inseparable part of every kitchen', marketing its products under five brands - MA's Kitchen, Dad's Garden, Katersafe, Pasta Roma and Happy Home.



MA's is a family-run company headed by duo Mario (center) and Suzette (not pictured) De Alwis, together with their sons Maliek (right) and Sheran (left)



The produce that is delivered to the Dambulla factory are manufactured into easy-to-use products like seasonings, curry powders, sauces, sambols and mixes, and sent to markets like Colombo (Pic from MA's humble beginnings some 30 years ago)

**“WHEN WE HAVE GOT TO THIS SIZE, TO BORROW MONEY TO MEET OUR SOCIAL AND BUSINESS OBJECTIVES IS DIFFICULT. WE NEEDED A PARTNER WHO WOULD UNDERSTAND THAT.”**

– MARIO

The company realized that it was time to restructure its operations and make changes to its management. According to its managing partners, husband and wife duo Mario and Suzette De Alwis, this restructuring is a part of MA's succession plan. But rather than exploring funding options, MA's focused on growing its production capacity even at the expense of an increasing outflow. “We didn't want debt, we were looking for an equity investment,” explains Managing Director Mario. Additionally, MA's continued its unquantifiable but significant investment in its employees, even at the cost of profits. According to the De Alwis' eldest son and CEO Maliek, spending on its employees and making a profit takes a balanced approach.

Despite its nine percent EBITDA margin, MA's recently received an equity infusion of Rs300 million from the Aavishkaar Frontier Fund based in India.

Aavishkaar is a globally renowned venture capital fund that invests in entrepreneurship-based, development-oriented enterprises working with low-income populations in Southeast Asia's rural and underserved markets. Aavishkaar, which began with a focus on early-stage enterprises operating in

India, now invests in Bangladesh, Indonesia, Pakistan and Sri Lanka, with MA's Foods being only the second venture from its Frontier Fund. Although managed by an Indian company, the fund's equity comes from development banks in France, Germany and Holland. Since incorporation in 2002, Aavishkaar has made more than 50 investments, managing \$200 million in funds.

Aavishkaar's partnership with MA's was a match made by nature.

“When we have got to this size, to borrow money to meet our social and business objectives is difficult, because sometimes our profitability does not make much commercial sense. We needed a partner who would understand that,” Mario explains. The Aavishkaar fund is not only focused on the bottomline in terms of money, but also where the social impact is concerned. “In fact, part of our reporting is on how many people we have employed, how many new farmers, etc.” But he adds that it's upto the next generation to decide on what level of control they want to continue to have in the company, of which Aavishkaar now holds a minority stake that the Indian fund does not want to disclose.



MA's is a food company that supplies a broad range of organic, fair-trade and ready-to-use products including spices, seasonings, curry pastes and sauces to the food manufacturing industry in Sri Lanka and abroad.

MA's, which would like to have an IPO in the distant future, already has plans to put the funding to good use - to open two new factories. The first is in the north. Recognizing the potential and lack of interest in the north, Mario says opening a factory here is the little MA's can do as a family business. The company expects to be in working condition by the end of this year and plans to target difficult to employ people such as ex-child soldiers and war widows as its employees. A significant portion of the Aavishkaar investment will be used to provide these workers with benefits like accommodation and food.

The second factory will be in Matale. MA's hopes to cater to big hotels coming up in the east coast, which otherwise have to source produce from faraway markets like Colombo. The rest of the funds will be used to develop MA's existing facilities.

Now a company raking in revenue of Rs700 million, the duo first stumbled into the spices business by accident. Mario was working for the Ceramics Corporation before moving to Dambulla to take over the family business as a goods agent. He fell in love with the area, although it was not the most commercially viable place. “In hindsight, I wouldn't change

anything,” he says, adding “I would do things a little differently because now I am wiser with years, but I would follow the same process.”

When he realized that the family business was not ‘his thing’, Mario and Suzette opened a backpackers' inn to cater to the growing tourism industry at the time. Given his passion and knack for cooking, which he says was nurtured by his gastronomically gifted family, especially his mother, Mario began a routine of looking after the family business by day, coming home at 5pm and cooking for their guests. This well-timed routine led to them devising certain shortcuts to make cooking in a hurry easier, like various mixes. “Getting into spices was the next obvious step,” he says.

MA's currently has over 300 people working at its main production factory in Dambulla and a canning unit in Minuwangoda. Most of the produce is sourced locally from small farmers who have been with the company over decades while also selling their produce to other markets and MA's competitors. The company currently works with around 157 farmers mainly in Matale, Kandy, Alawatugoda and Hakmana (off Matara), growing crops like coconut, nutmeg, chili, pepper, cinnamon and fenugreek. “We don't have a total contract with the farmers, but we basically have an untold agreement where we pay market price plus,” Mario explains.

Most of the farmers operate their own farms of one or two acres. Coconut farms are significantly larger, but produce like nutmeg is grown by small households. “One of our most successful farmers is a fourth generation farmer who grows nutmeg. He has around 90 trees on one and half acres of land. His income is around Rs6 million.” [For those scrambling to plant nutmeg, Mario cautions that it takes around 30 years to reap nutmeg.]

Produce that is delivered to the Dambulla factory are manufactured into easy-to-use products like seasonings, curry powders, sauces, sambols and mixes, and sent to markets like Colombo. Of MA's total business, one-third is the retail trade, one-third is sent to industrial kitchens of hotels, MNCs and fast food chains, and the remaining one-third is exported to countries like Japan, Germany and Holland (MA's also enjoys a good presence in European markets). “We also want to go to Australia and Canada,” Mario says hopefully, adding “Most of our exports

**“WE NEED TO BE UPDATED IN OUR CERTIFICATIONS TO BE ABLE TO MARKET AND EXPORT OUR PRODUCTS. IT'S THE KEY FEATURE THAT SAYS HOW GOOD OUR PRODUCTS ARE.”**

– SHERAN

**“WORKING DIRECTLY WITH FARMERS IS A CONNECTION WE HAVE TO KEEP BUILDING, BECAUSE THIS IS GOING TO BE KEY IN THE FOOD CHAIN GOING FORWARD.”**

– MALIEK

are to service Sri Lankan expatriates, but we also sell in general supermarkets.” He reveals the company’s vision as being to change its market mix to 50% exports and 50% the rest, although they also hope to tap into a significant industrial market once international hotel chains set up shop in the country.

In catering to these markets, quality becomes the top priority. Maliek’s younger brother Sheran is the company’s chief compliance officer. When looking at quality and organic produce, traceability is the most important thing - where is the raw material coming from, what type of activity has been put into growing it, etc. “Currently we have over 10 certifications that require audits every six months. We need to be updated in our certifications to be able to market and export our products. It’s the key feature that says how good our products are,” Sheran explains. Following standards is not Sri Lanka’s strong suit, but MA’s is committed to quality and taste. Sheran is in charge of keeping MA’s factories, which are regularly visited for quality checks and audits by their export clients, in top shape. Sheran also looks after the interests of the farmers through the company’s special agri business sector. “The farmers are certified for fair trade, which covers all practices,” he explains. Even these farmers are visited by MA’s extension officers who conduct production quality checks and advise the farmers if necessary.

A unique feature of the company is its management style. During his time at Ceramics Corporation, the early partner to Noritake and Lanka Walltiles, Mario was exposed to the Japanese style of business management. “They had a very aesthetic approach,” he explains. The workers were offered lifetime employment, there was no hierarchy and families were united. “Basically, they brought in this old Asian industrial culture, where industries were built around people and their families.” In addition, these companies provided living quarters and meals for their employees, had open ended communication where everything was discussed openly, and business was very transparent. “The only secretive thing was the financial performance.” Analyzing the success of this close-to-culture attitude, Mario decided to emulate this model at MA’s. What he didn’t realize at the time was that Sri Lanka already had a working close-to-culture model, temporarily forgotten by its people due to the prevailing colonialism. In the early 90s, MA’s started building facilities

for its employees alongside their factory in Dambulla. “We gave them meals and offered a lifetime job. One thing we are very proud of is that to-date, at noon, all of us would be eating a meal prepared by this company or paid for by the company (it is not a part of their salary),” Mario says proudly. At the factories, families of workers are also offered the same privilege. Children can live there until 21 years. “It’s like a campus, we have our own playground, laundry and cafeteria.”

The duo, however, do not take any credit for this way of doing business. Rather, they say it was already a natural method of doing business in Asia, where the stronger sectors of society would build communities and industries that could sustain everyone.

“(Investing in employees) is something we’ve always done. We are not giving food only when we are profitable; it is part of our fixed costs,” says Maliek. And their reasoning behind it makes perfect sense. “By making sure the requirements of everyone working in the factory outside of work are met as much as possible by the company makes life easier for them because it’s one less thing that have to worry about. This makes them more productive at work.” He adds that most people find this way of management hard to understand, but MA’s majority long-term employees appreciate this approach. It’s a win-win.

“Education is number one for us as a couple and we have always worked for the future generation. We want to see this continuity even for the people who work for us. We want them to be able to afford something more than their parents,” Mario stresses. In line with this, MA’s provides all stationery items required by the children of these farmers as well as their factory employees.

They also provide the country’s only full worker compensation insurance scheme. “Any injury caused while on site is compensated for the farmers and their workers,” explains Sheran.

Going forward, Maliek admits that the management style of the company may change, but not the ethics or social concepts built up by his parents. “We want to remain as a family-run, and grow our people and the company.” He feels working directly in farming areas and having direct access to the produce is important now and will be very important in the future. “It’s a connection we have to keep building, because this is going to be key in the food chain going forward.” ■



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# FIVE REASONS YOU NEED A WEALTH MANAGER

Markets can be hostile to the uninitiated easily overwhelmed by complexities and volatility, but wealth managers can help your savings beat the markets, building a nest egg that makes money for you when your work is done



Wealth management is not the same as investment management. Investment management is more or less limited to picking the best stocks, government securities, corporate bonds and mutual funds (a pooled investment fund with exposure to equities or bonds, or a mix of the two). Some banks offer investment management solutions, throwing their savings accounts into the mix.

Wealth management differs from investment management for three reasons: first, wealth managers will get actively involved in retirement planning and changing your investment profile based on where you are in your life cycle—the younger you are, wealth managers may allocate riskier, higher-yielding asset classes like stocks, while older clients will get more stable investments that

yield fixed returns. To do this effectively, wealth managers build closer relationships with their clients and walk through life with them.

Second, wealth managers don't just allocate and manage your funds. They will coordinate with your accountants

Wealth managers rely on a carefully allocated portfolio of assets to optimize returns so that your nest egg is strong enough to generate steady income flows when your work is done.

and lawyers, planning your taxation, legal and insurance requirements. In sophisticated markets like the US, they help professionals like doctors take out optimal insurance policies as protection from suing patients.

The third difference is that wealth managers strive for tax efficiency, picking investment options that minimise unnecessary tax liabilities—not to be confused with tax evasion. This function may not really apply here because investment options are rather limited at the moment.

Elsewhere, many people lay claim to being wealth managers, although many are more or less confined to investment management, but for an uncomplicated market like ours, with few investment options, even they will do. Don't forget to factor in the fees and your ability to switch between wealth managers before you take the step.

## 3 You don't have the time:

You're in that stage in life where your career is your priority, or you are balancing work and the care of children and elders. Whatever it is, time is a luxury. Managing your investments require time. You need to follow markets closely, pore over financial reports and economic data, and talk to people connected with your area of interest. Wealth managers commit to spend time on your behalf, so you can devote yourself to your career, family or passions.

## 4 You don't know how or what:

Investing in equities is complex. You need to buy the right stock at the right time, and know when to hold and when to let go. But, how much equity do you hold? The same goes for less-riskier assets like bonds. Even land has a good time to buy and sell. A basic understanding of how markets work is helpful, but is not going to cut it. Wealth managers have the experts onboard who will take a bird's eye view of the economy and hold a magnifying glass to all its parts to make sound investment decisions for you.

## 5 Optimising your returns:

It's easy to get caught up with tunnel vision. You can keep your savings locked up in a bank vault or divvy it up with equities, bonds, property and exquisite pieces of art. You can play it safe and trust the bank, but your savings will have no room to peak. Inflation will eat into your savings by the time you retire. You can go on the offensive and chase equities for higher returns, but so are the risks, as an asset bubble could wipe out wealth in the blink of an eye. Wealth managers rely on a carefully allocated portfolio of assets to optimise returns so that your nest egg is strong enough to generate steady income flows when your work is done. ■

## Why you need a wealth manager

### 1 Preserving and growing your wealth:

You have inherited wealth or you may have made it on your own; either way, you want to preserve this wealth and grow it for generations to come. Land and houses are generally appreciating assets, but what do you do with stuff like old cars, antique furniture and those paintings that haunted you as a child but now fill you with warmth? Do you sell them off and put the money in the bank or buy property? Or can these be assets by themselves? Should you invest in art? Wealth managers can help you with this. For example, art is emerging as a long-term investment option in Sri Lanka and wealth managers can help identify good art that will appreciate in value over time.

### 2 Making your nest egg:

You're driven to succeed and working hard at it, making enough to lead a comfortable lifestyle that allows an occasional splurge. So, how much must you save now to maintain a similar lifestyle or even better after your work is done? You need a retirement plan, and it must ensure two things: first, inflation must not bring down the real value of your savings, and second, your savings must not turn into an ATM you can chip away at after you retire. Wealth managers ideally factor in all this so you can set aside enough without impacting too hard on your lifestyle, and advise on how best to invest the savings in a range of asset classes that will optimise returns.

# New Banking rules: Basel III is not a shake-up

Capital adequacy requirements and other regulations introduced after the global financial crisis whipped banks into shape: Sri Lanka adopting these rules will be less dramatic

**S**ri Lankan banks will find it less-easier to maximise profits and raise capital for lending with Basel III banking regulations coming into effect since June 2017. However, the transition is smooth and less challenging compared with other markets, says Nandika Buddhipala, chief financial officer of listed Commercial Bank, Sri Lanka's largest private bank in terms of assets.

The Basel Committee on Banking Supervision was established in 1974 to contain global banking risks by formulating guidelines and regulations relating to credit, capital and operations. Its first accord, Basel I was issued in 1988 and updated in 2004 with Basel II. The 2008 global financial crisis resulted in Basel III shaking up the banking system with tighter regulations and requirements around capital adequacy, leverage, liquidity and funding to ensure that banks maintain sufficient capital to meet financial obligations and absorb unexpected losses.



Nandika Buddhipala,  
Commercial Bank  
CFO

In developed markets, bank ROEs have fallen from around 15% to 8-10% because of Basel III. There are three main reasons for this: One, banks are restricted from maximising margins from maturity mismatches, by borrowing short term (including deposits) to lend long term. Second, lending is restricted by tighter leverage and capital requirements. Third, complying with regulations introduces new operational costs and requires investments in technology.

Buddhipala explains why Basel III is less challenging for Sri Lankan banks. Excerpts from the interview are as follows:

#### What is Basel III, and what's its purpose?

**A:** Banks encounter a range of risks that arise from day-to-day operations, loans they generate, capital raised or markets they operate in. Basel III is an extension and evolution of a series of banking regulations introduced by the Basel Committee on Bank Supervision aimed at minimising these risks to ensure financial system stability. The basic objective of the Basel accords is to ensure that banks maintain sufficient capital to meet financial obligations and absorb unexpected shocks or losses.

Basel III endeavours to further improve the sustainability of banks, not only in capital adequacy, but extending guidelines to leverage, liquidity and funding.

#### How is Sri Lanka rolling out Basel III?

**A:** The market is buzzing about Basel III because it came into effect here in July 2017. However, the Central Bank of Sri Lanka (CBSL) has laid down certain guidelines since 2013, introducing certain aspects that would facilitate the compliance by the effective date. For example, the regulator introduced the Internal Capital Adequacy Assessment Process (ICAAP) in 2013. A Liquidity Coverage Ratio (LCR) was introduced in 2015, and a Leverage Ratio is to come into effect in January 2018.

As far as Tier 1 Capital under Basel III is concerned, different conceptual frameworks compared to existing capital frameworks have been introduced with Common Equity Capital (CET1), Capital Conservation Buffer (CCB) and Capital Surcharge for Domestic Systemically Important Banks (D-SIBs). Furthermore, I believe CBSL reserves the right to impose Counter Cyclical Buffers (CCB) when excessive credit growth at a given time can be associated with the explosion of a system-wide risk.

By July 2017, small banks (with assets less than Rs500 billion) will be required to maintain a minimum Tier I capital of 7.25%, which is CET1

and CCB combined, increasing to 7.85% by 2018 and 8.5% a year later. At the moment, small and large banks are required to maintain a minimum Tier I capital adequacy ratio of 5%.

Large banks with assets over Rs500 billion will have to maintain a minimum Tier I capital requirement of 7.75%; this combines CET1, CCB and the Capital Surcharge for D-SIBs. This minimum Tier I capital requirement will have to increase to 8.875% by 2018 and 10% by 2019.

Apart from these changes, small banks will be required to maintain a minimum total capital ratio of 11.25%, increasing to 11.875% by 2018 and 12.5% a year later. For large banks, this ratio will be 11.75% by July 2017, 12.875% by January 2018 and 14% by 2019. Both small and large banks are currently required to maintain a minimum total capital adequacy ratio of 10%. Obviously, the difference between capital requirements for small and large banks is the absence of a Capital Surcharge for D-SIBs for small banks.

Small and large banks are required to maintain leverage ratios at 3% and 4%, respectively, by January 2018 when the new requirements will become effective. The Liquidity Coverage Ratio under Basel III is already in effect, and the minimum requirement will reach 100% by January 2019.

Even though the Internal Capital Adequacy Assessment Process (ICAAP) was introduced with Basel II with Regulatory Framework on Supervisory Review Process (SRP), under the supervisory review process, certain aspects such as internal capital assessment, risk strategy, capital planning and stress testing aspects could have been influenced by Basel III as well. In other words, Basel III is an evolution of the Basel framework rather than ad-hoc increases in capital adequacy and other ratios.

#### What do these changes mean for banks?

**A:** It's too early to say what the overall impact will be. However, we can turn to the experiences of other markets that have already implemented the Basel III accord.

For instance, we know that the leverage ratio restricts banks from taking on more assets or loans compared to their capital. Also, increasing capital adequacy requirements will impact the creation of risk-weighted assets compared to risk-weighted capital.

There are arguments that some aspects of Basel III challenge the traditional banking business model. For example, the liquidity coverage ratio and net stable funding ratio requirements may limit banks' ability to generate profits by borrowing funds or accepting deposits short

term and lending long term. A 2015 study by NYU Stern School of Business asked if Basel was turning banks into public utilities. The paper argued that banks' return on equity declined from 15% to around 8-10% because of Basel III. Apparently, public utilities were generating these same returns.

#### Will Sri Lankan banks also experience declining ROEs?

**A:** I don't think they will in the short-run. Sri Lanka's banking context is different to that of advanced economies in many ways. First, many banks here maintained minimum Tier I capital adequacy ratios near or above 10% even before Basel III. However, this depends on the balance sheet composition and capital levels of each bank in the market.

Furthermore, CBSL has provided transitional arrangements for existing Tier 2 capital instruments raised up to end-2016 under Basel III. That will enable banks with current Tier 2 capital instruments to weather through the transition. I feel it is required to establish the loss absorption capacity through conversion to ordinary shares at an objective pre-specified trigger point to get qualified as AT1 and Tier 2 Capital instruments under Basel III. What I can see in the long-run after full amortization of existing Tier 2 instruments allowed under transitional arrangements there will be heavy dependence on Tier 1 and CET 1 unless otherwise capital instruments those can claim for AT1 and Tier 2 emerge in the capital markets in Sri Lanka by that time.

#### What are the challenges around Basel III?

**A:** Challenges begin from raising capital to meet growing demand for credit. Sri Lanka does not have enough instruments that qualify for Additional Tier 1 capital (AT 1), apart from Common Equity Tier 1 (CET 1) capital. This means that banks will depend heavily on the capital market to raise additional capital, and this can pose some challenges. This can be aggravated where the existence of common shareholders prevail in a shallow capital market.

The stock market here lacks breadth and depth. With a market cap of around 30% of GDP, raising fresh capital will be a challenge compared to banks in other countries. For example, India's 70% market cap to GDP can provide enough space for banks to raise the necessary CET 1 and AT 1 compared to us, even though they have other complications.

Although I said earlier that banks here may not see ROEs decline significantly in the short-term, there is nothing preventing investors from

perceiving otherwise. However, banks play a huge role in the economy, and their fortunes are linked with an economy that is in the cusp of a takeoff. Also, banking stocks contribute significantly to market cap, especially larger listed banks that are more likely to attract foreign investors looking for decent returns to compensate for various uncertainties, including volatility of local currency.

Basel III compliance will require investments in technology. Risk reporting requirements will necessitate designing, installing and maintaining appropriate data architecture and IT infrastructure to move forward. This can be a challenge.

Also, leverage ratios aren't as high compared to that of banks in advanced markets. However, I feel meeting the leverage ratio of around 3-4% can be challenging for Sri Lankan banks.

Since Basel III will challenge the traditional banking business model around maturity mismatches, treasury operations at banks will have to change track with strategy.

Despite the challenges, one thing is clear: Empirical evidence wherever Basel III is implemented shows that enforcing the accord has led to more robust and stable banking systems. This is ultimately what we can expect here in Sri Lanka.

However, when we go through the journey, it is imperative for regulators to take stock, assessing the outcomes and taking precautionary measures necessary for smooth transition towards Basel III.

#### How will these changes affect a bank's clients?

**A:** Many people think the obvious answer is that compliance costs will be passed on to clients by way of higher interest rates on loans. But, this is not going to happen easily. Increasing, or decreasing, interest rates is more a function of monetary policy, competitiveness of the domestic banking sector, taxation and macroeconomic factors such as GDP growth, credit demand, inflation and volatility in international markets.

#### Will mergers and acquisitions become inevitable because of Basel III?

**A:** Some people seem to think so because certain banks may find it challenging to raise additional capital, becoming takeover targets for larger banks. However, I believe this is counter-intuitive. Since the global financial crisis, regulations have discouraged banks from acquiring other banks, special purpose finance companies and other financial institutions because all these entities have to maintain adequate capital requirements as well. ■

Martin van Roekel, chief executive of BDO Partners, (left) and Stephen Darley, BDO's Asia Pacific head



# Opportunity amid the chaos

For BDO Partners, Sri Lanka's audit profession has more reason to be encouraged by tightening regulations

by **Devan Daniel**

Sri Lanka's audit profession is going through an anxious period. First, there is a widening trust deficit, and regulatory scrutiny is intensifying. Second, most practitioners are in the dark about the proposed new income tax law, which promises to overhaul the entire tax system. Third, economic uncertainty abounds as the government struggles to push through critical reforms to attract foreign and domestic investment.

However, opportunities tend to lurk amid the chaos and uncertainty, according to Martin van Roekel, chief executive of BDO Partners, a public accounting, tax advisory and consultancy firm with offices in 158 countries including Sri Lanka. "What is happening in Sri Lanka is not unique; it's a part of a worldwide trend, but there are opportunities here," he argues. Van Roekel and Stephen Darley, BDO's Asia Pacific head, were recently in Sri Lanka exploring opportunities for business growth in the areas of forensic accounting, consultancy and business process outsourcing.

Excerpts from the interview are as follows:

**There is a level of uncertainty in the economy, and the government is proposing several laws - in the areas of Inland Revenue, Customs and Capital Markets - that will impact the accounting and auditing professions here. How should the profession deal with these challenges, especially intensifying scrutiny?**

**Van Roekel:** Where there is chaos, take a step back and the opportunities become visible. Intense scrutiny of the audit profession is nothing new.

**What is happening in Sri Lanka is a part of a worldwide trend that began 10 years ago with the global financial crisis. Many countries around the world tightened regulations and introduced new rules, forcing audit quality improvements.**

What is happening in Sri Lanka is a part of a worldwide trend that began 10 years ago with the global financial crisis. Many countries around the world tightened regulations and introduced new rules, forcing audit quality improvements. As a result, there have been significant improvements in the work of auditors. More importantly, there is better dialogue between regulators and auditors. They're stimulating each other and working together to improve and enhance auditors reports in financial statements. This is an ongoing process.

Auditors need to be constantly aware of the expectations, so they can deliver effectively. This is why dialogue is critical between regulators, auditors and users of financial statements. Dialogue must be encouraged and expanded to include a company's suppliers, employees and the general public.

The profession can learn from challenges elsewhere and become meaningful catalysts of change here.

For example, many countries introduced long-form audit reports to financial statements. Previously, auditors gave an opinion on the company's financial position. With long-form audit reports, they do much more

than that. Auditors now detail their scope of work and present opinions on both the financial position and operating performance of companies, conduct evaluations, make recommendations, and highlight issues. The experience has been very encouraging.

Investors and other stakeholders say these reports add more value and give them better insights about a company. These reports also give people a better understanding of what auditors actually do, because auditors can now disclose more information about their work and issues they've uncovered while auditing a company. Can the profession play a role in introducing best practices here? Yes, they can and should. I'm encouraged that Sri Lanka will soon be introducing long-form audit reporting.

**Darley:** Governance and structure are everything. Audit quality is determined by the governance and structure of audit firms and the profession as a whole. If there are regulatory changes, they better move towards improving governance and structures of audit firms and of companies that require audits.

**Van Roekel:** Absolutely. Many people conveniently believe that only auditors are accountable for the quality of financial statements. This view is flawed. The responsibility of preparing good quality financial statements begins with the management of a company—even non-executive directors, supervisory boards and board committees have significant roles to play, along with the accountants, and internal and external auditors.

All of them are entrusted with preparing reliable and trustworthy financial statements. One of them failing to do their job will risk the financial statements not meeting shareholder and financial market expectations. This is why we advocate for strong corporate governance codes and transparency across companies, audit firms and governments.

**As a global network, BDO is exposed to multiple regulatory environments at different stages of evolution. How can these experiences be used to navigate regulatory challenges in Sri Lanka?**

**Van Roekel:** BDO International is one of six networks working closely with the International Federation of Audit Regulators, where frequent dialogue and debate focus on regulations across many countries and on improving auditing standards. When regulations

change, it's important to look at what audit reforms really mean. We tend to focus on what will be forbidden or what new obligations will be imposed on auditors. However, if you understand the rules, you will also see the opportunities that are bound to be there.

For example, if there is going to be a new audit rotation rule, you can either spend time worrying about the clients you will lose, or you can take the time to understand the new rule and use it as an opportunity to acquire new clients and expand non-audit related accounting services.

As a network, we make it a priority to really know what the rules mean for different jurisdictions, then we look for opportunities and share them with our partners. So, wherever it may be, it's always wise to take a step back when confronted with change, so we get a clearer view of the opportunities.

It's wise to learn how countries implement certain financial market reforms, but we must also remember that rules are often made for a particular challenge or a specific country issue, so we shouldn't copy anything blindly.

**What are challenges facing the global audit profession?**

**Van Roekel:** There is a huge challenge around recruiting and retaining talent. Most mature economies have ageing populations, so everyone is looking for ways to attract people and investing in automation wherever possible. The mobility of people has always been important for our profession, and it's becoming even more so now.

A revolution is taking place. Much of what we do as accountants is being automated. Data analytics, mapping and artificial intelligence (AI) are becoming more important; and while replacing many elements of our work, they present opportunities for growth and continued relevance of the profession. We will have to acquire skills to deploy technology in a sensible way. For example, there's so much information around, but the challenge is identifying the appropriate data to use and to what end. Once technology processes the data, we will then need skills to analyse the results, establish linkages and form judgments.

**Won't expectations also rise because of this?**

**Van Roekel:** There is a debate going on in some countries whether the role of an auditor should be extended beyond giving an opinion

about a company's financial position.

For example, in integrated reporting implemented in several countries, investors are asking whether auditors can give an opinion on how companies impact the environment. Expectations are rising for auditors to not just look deeper, but also broader. This raises important questions. First, will auditors have to build expertise in other areas, like the environment? Second, once you start looking beyond taxation and finance, where will it end? Third, where will the audit profession end up?

Similarly, social media is gathering more and more data, but how far should auditors go in using the 'big' data available in the public domain? I would think auditors will not access data from social media, especially with privacy laws tightening the world over. However, if that is the expectation and if people want auditors to go deeper into matters, then they will have to deliver.

**Governance and structure are everything. Audit quality is determined by the governance and structure of audit firms and the profession as a whole.**

Having said that, there is a wealth of data in the public domain about companies and industries, and even with the firms we audit. I expect auditors to use that information and do more than just give an opinion on financial statements. They will be able to compare a company's performance against its competitors and industry. If the company is reporting outlier results compared with the industry, auditors can ask the right questions from management, and through this, dig deeper into a company's affairs. Auditors can then add value to shareholders by suggesting improvements or highlighting any issues. This is why, going forward, auditing can no longer be standardised, but tailor-made to deliver the best possible results for each client.

This much is clear: We have to approach the future with open minds about the possibilities. ■

# OVERCROWDING

## THE CHALLENGE OF PORT OVERCAPACITY

PLANNED NEW PORT CONTAINER CAPACITY ALONG THE ASIA-EUROPE SHIPPING ROUTE IS WELL ABOVE PROJECTED TRADE VOLUME GROWTH





## SRI LANKA PUNCHES WELL ABOVE ITS WEIGHT

0.25%

of global population

0.18%

of global trade value

12%

of container shipping tonnage

Source: McKinsey

yet grab market share. However, overcapacity will limit yields.

Colombo port handled a record 5 million containers (twenty-foot equivalent units or TEUs) in 2015. This is despite Jaya or JCT, the port's largest terminal operated by Sri Lanka Ports Authority, only filling 55% of available capacity. In addition to JCT's four million TEUs capacity, CICT is designed to handle 2.4 million TEUs and John Keells Holdings-controlled SAGT 1.1 million TEUs. A fourth government-controlled facility called Unity handles small ships.

A new terminal - now under construction - referred to as East Terminal will grow volume at a rate no regional competitor will match.

Sri Lanka aspires to reverse a two-decade exports decline. Its port - a shining example of global success - it thinks, can establish the country as a trading hub.

Sri Lanka's location has been the asset that established the country as a hub since the first Egyptian, Roman and Arab fleets sailed East. The island's then rulers had a knack for making the most of this, welcoming traders, building ports and setting up customs infrastructure to make some revenue. The scale of trade hubs were limited until the industrial revolution, when overseas shipping costs fell and cities were able to specialise in production because they could have customers all over the world. A century later, shipping containers are the means by which cargo crossing

**Sri Lankan ports' ranking at the top of productivity league tables and delivering services demanded by the world's big shipping lines may yet grab market share.**

oceans began to be organised. While steam engines made ocean crossings faster after the industrial revolution, shipping containers made cargo handling at ports more efficient. They were also easily transferred to trucks for over-land transport.

However, improving infrastructure alone cannot develop shipping and trade hubs. This is because the state of global manufacturing has changed. Factories now manufacture widgets that most consumers never see but probably use because they are parts of everyday products like cars, washing machines and mobile phones. They produce parts, but never all, of brand name goods.

On the other hand, a port itself won't create widespread wealth, because even the largest ones employ only a few thousand people and the transshipment business suffers from overcapacity.

Ports support mass wealth creation only when they link manufacturers to global supply chains, and a country's logistics industry is able to exploit these linkages. Sri Lanka's links to manufacturing supply chains are almost non-existent and its logistics industry lacks scale.

Ports are critical economic assets, especially for islands. When transport costs are high, the accessible market for manufactured products is small, sometimes not beyond the next village. As transport costs decline, economic activity begins to unbundle; the village will import from further away the stuff it can't efficiently make. As shipping costs declined in the last half of the century, large-scale production transformed towns into industrial cities.

Successful industrial cities can't do without an efficient port, because land and air transport of inputs and finished products is much costlier. Port owners also profit more from import-export cargo than they do from the cut-rate transshipment business.

For decades, the most prolific goods exporters have been successful because they have specialised in segments of the value chain rather than producing complete products. In the 1990s, imported content in exported products globally was around 20%; by 2015, this has risen to 40%, and in 15 years, trade analysts forecast it will rise to 60% or more of the final goods.

Of Sri Lanka's 2013 manufacturing exports, only 6.1% were parts and components ending up in finished products elsewhere in the

world. The rest of Sri Lanka's exports were all finished products. Sri Lanka didn't do any final assembly by importing components. On average, UN Comtrade estimates that 47% of goods exported globally by value were either parts or stuff assembled off imported components.

Of developing country exports, the agency estimates 62% comprised parts and assembled products. For instance, Thailand and Malaysia achieved 70% and 73% respectively, of the global production share in their exports.

Even Indian manufacturers are now integrating global supply chains in their products. Linking with an Indian chain may be Sri Lanka's first opportunity. Shipping links between the two are deep. Seventy five percent of the Colombo port's transshipment business is from India. In 2014, Colombo also managed 20% and 23%, respectively, of Bangladesh's and Pakistan's transshipment market share.

The Indian states of Kerala and Tamil Nadu in the south have industrialised at clip faster than most other states in the country. While only 18% of Indian cargo is transshipped through Colombo, around 97% of south coast India's exports move through the Colombo port.

The first opportunity is to attract FDI from global component makers who can supply Indian manufacturers of cars, electronics and other industries.

China now dominates global manufacturing. From less than 3% quarter century ago, China's share of global manufacturing by value is now nearly 25%. It manufactures a staggering 80% of the world's air conditioners, 70% of its mobile phones and 60% of its shoes, shipping containers of these in giant ships dominating markets in Asia, Europe and the Americas.

South East Asian economies, together with China, produce nearly half the world's manufactured goods by value.

The region's ports linking Asia's manufacturing hubs with global markets also link the supply chains that reach deep into Southeast Asia.

Foreign investors who can set up manufacturing and services ventures here to link with Indian and Southeast Asian supply chains won't invest due to their being awed by Colombo's impressive port. Instead, they will seek out locations with plentiful talent and ease of market access.

The World Trade Organisation's (WTO) research shows that a 29% value addition of developing country manufactured exports comes from services. In trade jargon, this is now referred to as the 'servicification' of the manufacturing sector. Essentially, service liberalisa-

## To successfully bite pieces off global supply chains, Sri Lanka will have to keenly exploit two fairly recent trends. There is only so far a supply chain can be stretched geographically

tion or servicification is reducing manufacturing costs. Sri Lanka's trade agreement with India - the only important such deal the country has - no longer offers the level of freedom of access that global investors now expect. That's not surprising because trade deal structures have a useful lifetime and their returns start to diminish due to the pace of transformation in global manufacturing.

Of the 360-plus regional and bilateral trade deals around the world, more than 90 have been upgraded to meet contemporary realities, including services and investment liberalisation.

In their most unbundled form, component manufacture, assembly, testing and final assembly will happen in multiple countries. Because stuff cross borders multiple times, smooth import-export procedures must be available. To successfully bite pieces off global supply chains, Sri Lanka will have to keenly exploit two fairly recent trends. There is only so far a supply chain can be stretched geographically, and recently, distance has started to assert itself in two ways.

First, production is seeking locations where talent is plentiful because of the boost to research and product innovation great people can have. No longer will manufacturing the widget as cheaply as possible suffice.

Second, information technology has made it possible to better coordinate manufacturing, but it may have also contributed to spreading it too thinly. Now, it's becoming necessary to keep plants close together so gains of fractured production aren't eroded by transport delays.

For latecomers, these trends have implications. Investors seek not just deep regional access and proactive trade facilitation, they want high-quality talent, large numbers of workers and geographical proximity to markets. Sri Lanka's talent pool is small and has limited skills. However, its proximity to India is an asset. India is a big market and has a large pool of labour that may be attracted here. Manufacturing-allied functions from financial services, research,

## The island's reluctance to open its borders to foreign migrants has resulted in labour shortages in critical economic sectors like hotels, construction and information technology.

warehousing, transporting, marketing and after-sales are all services. Many high skills jobs will be available in places where supply chains have made inroads.

Sri Lanka's export ambitions have been at odds with the policy on free movement of labour, trade facilitation and import tariff structures. On some fronts, Sri Lanka has moved backwards in the last decade.

Sri Lanka added an average, so-called para-tariff of 10% on imports since 2004. This includes cess and various import levies. Its nominal import tariff has also doubled in the period since 2004 to an average of over 20%. These have contributed to creating one of the most complex tariff systems in the world.

The island's reluctance to open its borders to foreign migrants has resulted in labour shortages in critical economic sectors like hotels, construction and information technology.

When companies have implemented their flat structures, re-engineered processes and scrubbed waste off their production lines, logistics is worthy of their attention.

**T**he concept of having components delivered at the last minute so as to keep inventories down, called just-in-time, has spread from vehicle assembly to every corner of manufacturing, giving rise to an industry now called logistics. This is the second trend that has swept the world.

Efficient supply chains enable manufacturers to buy from where prices are the lowest, and logistics help maintain minimum stocks. Sri Lanka's large readymade clothes exporters adopted just-in-time (also called lean manufacturing) early, since there weren't any independent service providers to help the industry set these units up themselves. The lines between logistics firms and manufacturers are blurred.

Early on, logistics firms just moved things around efficiently. But global brand owners and their partners are now demanding far more,

including finely coordinated deliveries, sequencing of parts to the production floor and managing suppliers. Brand owners are left with just product development, design and marketing. Logistics firms reach deep into their clients' core businesses to manage processes, freeing brand owners to focus on more important stuff.

For a global shipping hub, Sri Lanka suffers from surprisingly inefficient logistics.

In the World Bank's 2014 Logistics Performance Index, Sri Lanka ranks 89th, one behind Kazakhstan and in the company of Russia, Uruguay and Armenia. The Index scores each country on their customs, infrastructure, international shipping, tracking and tracing, logistics competence, and timeliness. It ranked 160 nations.

In contrast, Sri Lanka's port is a global top 30 by available capacity and could enter the top 15 in a few years once the new container terminal (currently under construction) is fully operational. Global supply chain integration and mastering logistics are separate challenges. However, the route global manufacturing has taken in the last decades shows that success cannot exclude either.

Just-in-time partnerships are also complex. Global brands have a hierarchy of suppliers based on long-term relationships. Tier one suppliers usually deliver big integrated systems to the brand owner or original equipment manufacturer (OEM). Fanning out from these are tier two suppliers who provide individual parts or assembled components to the OEM or a tier one supplier.

Partnerships are long term, and ensure mutual benefit and collaborate intimately. Latecomers must struggle to enter as a tier two supplier and work their way up. The faster way to make inroads is to attract established suppliers to invest in factories here. The benefits are self perpetuation, as hosting more of the supply chain boosts competitiveness and attracts more investment.

The south port moved the Colombo harbour from a regional to a global hub. In June 2016, 24 ships requiring a draught of 14.2 meters or more called at the Colombo International Container Terminal. In the first six months of 2015, that number didn't exceed 10 ships in any one month.

Building ahead of demand has paid off for the ports sector. Quayside at CICT, it's easy to be misled that a hub's vision needs mainly infrastructure investment. A vital component is a liberal trade and investment framework. That's the only way to protect and grow Sri Lanka's position in the trading world. ■

## Focus On - Technical

# Guideline on Impairment: Investment in Equity



**L**KAS 39 Financial Instruments Measurement & Recognition requires entities that hold equity securities classified as Available for Sale (AFS) to assess whether these instruments are impaired. According to paragraph 61 of LKAS 39, "a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment". In this regard, there is no application guidance on the meaning of 'significant or prolonged'. So, how should 'significant or prolonged' be interpreted?

In light of recent market behaviour in the Colombo Stock Exchange (CSE), most investments appear to have triggered the definition of "significant and prolonged". However, none of them

(equity investments) indicate any other objective evidence/s such as a decrease in profits, decrease in revenue, decrease in total assets, decrease in earnings per share or decrease in net assets value per share to support the permanent loss of capital as stated in paragraph 59 of LKAS 39 Financial Instruments Measurement & Recognition.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) believes there is a necessity to provide an interpretation of the significant or prolonged decline in the fair value of an investment in an equity instrument below its cost, as stated in the paragraph 61 of LKAS 39 Financial Instruments Measurement & Recognition, to the local context considering the facts and circumstances relevant to the local condition. This guideline has

been issued by CA Sri Lanka on April 2017.

The recommendation as per the guideline is as follows:

"The term 'prolonged' should be assessed based on the period for which the fair value has been less than the acquisition cost. A general stock market decline over the period of 12 months may not be necessarily considered as 'prolonged' in the Sri Lankan stock market context. A decline of 20-30% of the fair value of an investment in an equity instrument below its acquisition cost may be considered as 'significant'.

As noted above, we believe the application of LKAS 39's criteria is a matter for professional judgement. This requires careful analysis of the specific facts and circumstances of each case." ■

# Economics education is not responsible for sri lanka's “gut reaction” against the market

**Economics professor at the University of Peradeniya Dileni Gunewardena talks about the role of economics education in Sri Lanka's dependency on the government and distrust of the market**

**Dileni Gunewardena believes Sri Lankans would have a deeper, more complex and more realistic understanding of the roles of the government and the market if they chose to practice what they learn as theory in undergraduate economics**

**D**ileni Gunewardena has consulted for the World Bank and the UNDP, and taught economics to undergraduates for nearly three decades. Cultural conditioning contributes more to national economic ideology than formal economics education, she says.

How do you interpret the Sri Lankan citizen's expectation that “the government should supply everything”?

Research shows that countries are different in how they regard inequality and the role of the government. In general, European countries are more inequality-averse than the United States, and I think it's safe to say that people in the US prefer a small government compared to people in Europe.



There are many reasons as to why people in different countries think differently, including the history of the country, their relative position within society and the opportunity for mobility within society. In Sri Lanka, if a lot of people are just average, and if they don't perceive much opportunity for improving their lot (mobility) - or they see that they could only do it by getting a government job - then they are more likely to prefer the government playing a larger role.

#### Would you agree that a majority of Sri Lankans respond to "privatisation" negatively?

I think many Sri Lankans do have an inbuilt gut reaction against privatisation. I think it comes from when and where they grew up, went to school; how their parents voted; what their teachers thought; and what values were taught in temples, mosques and churches, among other things.

Speaking for myself, I grew up in the 1970s during the SLFP government and state-dominated economy. Despite shortages and austerity measures, I thought of socialism as a good thing, mainly owing to influences in my home, school and religious environment. I believe my experience was fairly common and that many Sri Lankans of my generation, and especially those who live outside the Western province, think this way. Interestingly, I don't think it is true of young, urban, upper class or upper-middle class Sri Lankans today.

#### How has economics education contributed to deepening this thinking?

I don't believe education - economics or otherwise - has a huge role to play in how attitudes and opinions are formed, and this is not specific to Sri Lanka; it is true of any country. I can only speak for the economics curriculum at Peradeniya, although I am fairly sure that it is representative of the undergraduate economics curriculum elsewhere.

Much of it is mainstream economics; in fact, we have been accused of neglecting heterodox/Marxist economics. So, my answer is: not much.

#### To what degree do you think other streams of study (eg: political science, sociology, history) influence Sri Lanka's attitude to the government and privatisation?

That's hard for me to say, in terms of specific courses of study or curricula. I would rather

**If a lot of people are just average, and if they don't perceive much opportunity for improving their lot (mobility) - or they see that they could only do it by getting a government job - then they are more likely to prefer the government**

say that ideas from these disciplines influence public discourse probably to a greater extent than mainstream economics ideas.

#### If every Sri Lankan had a compulsory typical undergraduate economics education, how would their view of the economy and the role of the government be different?

First, there would be a greater understanding and appreciation for basic economic ideas like scarcity and efficiency. For example, the idea that "there is no such thing as a free lunch" - i.e. that everything, even the services that the government supplies, has a cost and that someone, somewhere is paying for it. I think there would also be a greater appreciation of efficiency - the idea of using scarce resources optimally with minimum cost. Because undergraduate economics students learn the concept of externalities, the idea of cost would not just be thought of as market cost or private cost, but would also take into account the cost to the environment.

Second, I think they would have a more complex view of equality - not just desiring it, which I think is a good thing, but also seeing that income redistribution is necessary for equality to be achieved and that taxes are needed to improve social protection. They would see that expanding the government, so that more people get jobs and subsidies or services, comes at a cost.

Third, they would have a more realistic view of what governments can do, because they would learn that, just like there is "market failure" - a situation when free markets fail to allocate resources efficiently - there is also government failure - a situation where government intervention in free markets does not improve allocative efficiency and leads to a decline in economic welfare.

They would realise that governments are also made of economic agents, looking out to do the best for themselves, and that setting up incentives where they do the best for the public is easier said than done. They may also have a better idea of where government intervention is useful and where the government is less likely to do better than the market.

There would also be continued healthy scepticism about the free market's ability to deliver, but hopefully more enlightened and educated scepticism that would know the limits of the market in promoting equity, ensuring sustainability, and preventing gender and racial discrimination, etc. ■

## Update

### CA Sri Lanka workshop highlights the important role of supervising members in nurturing Chartered Accountants

The important role played by supervising members in nurturing Chartered Accountants to become globally sought after professionals was highlighted recently at a Training Partners workshop organised by CA Sri Lanka.

The technical workshop organised for supervising members of practicing firms and commercial sector organisations focused on the increasingly challenging role and the continued expectations of training partners and practicing members in the current context.

Chairman of the CA Sri Lanka's Student Training & Development Committee and Partner of KPMG Mr. Dulitha Perera highlighted the significant role the institute's supervising members have played over the years in developing the professional competence of trainees, while also imparting important technical competence, professional skills and values in helping

**"The underlying objective of a supervising member is to enable aspiring Chartered Accountants to demonstrate that they have gained the technical competence, professional skills and values, ethics and attitudes necessary to perform the role of a professional accountant."**

the trainees become holistic professionals.

"The underlying objective of a supervising member is to enable aspiring Chartered

Accountants to demonstrate that they have gained the technical competence, professional skills and values, ethics and attitudes necessary to perform the role of a professional accountant," he said.

The CA Sri Lanka Practical Training component is broken into three parts over a period of three years: executive level, business level and corporate level, where technical competence, professional skills and ethics modules are imparted on the trainees, helping them enhance their professional value and expertise when they progress towards becoming qualified professionals at the end of their training period.

Mr. Nihal De Silva, managing partner of B. R. De Silva & Company, broke down the main values of a professional accountant into five areas and covers: diligent/quality, propriety, honesty/integrity, faithfulness/following rules

and confidentiality. He also recalled the importance of teamwork, discipline, leadership, mutual respect, friendliness and tolerance, which are important areas for any accountant. "Our duty by the trainees is to provide them an opportunity to develop the necessary skills, while guiding and supervising their training to enhance their theoretical knowledge," he added.

Guest speaker, Mr. Fayaz Saleem, the principal consultant and managing director of Executive Search Ltd (Esl), said that even though technical skills is a known hard skill, it is important for a professional, as more and more employers now seek employees with particular soft skills.

Elaborating further on soft skills, he said key soft skills required of any professional are communication, interpersonal relationships, self-motivation, responsibility, teamwork, problem solving ability, decisiveness, the ability to work under pressure and be able to manage time, flexibility, work ethics, and the ability to both negotiate and resolve conflict situations.

Highlighting the important role supervisors play in helping trainees progress to become Chartered Accountants, Mr. Saleem said the supervisor's or manager's role as a leader should always be less about what he or she does, and more about what his or her staff can do. ■



## Update

### Over 40 CA Sri Lanka members recognised as forensic accounting specialists



Over 40 members of CA Sri Lanka who hold senior management positions in the public and private sectors received their certification in forensic accounting recently.

A total of 42 CA Sri Lanka members who formed the first batch of the institute's forensic accounting certificate programme were awarded the certificates, recognising them as forensic accounting specialists who possess the necessary skills to combat fraud within an organisation.

The members who received their certificates were senior management representing the private and public sector,

including CEOs, general managers, partners and audit managers, among others.

Addressing the guests at the event, CA Sri Lanka President Mr. Lasantha Wickremasinghe said that, even though chartered accountants are world class and in demand locally and overseas, there is an increasing need to develop their skills and expertise to ensure they remain globally sought-after. "Gone are the days when our members were limited to conventional number-crunching positions. Today, CA Sri Lanka-qualified chartered accountants are not only business leaders, but

have even had to don the hat of an investigator," he said.

Mr. Wickremasinghe noted that, due to increased competition, there is also more opportunities for corruption, hence, the role of an accountant has evolved drastically. "Therefore, to help combat such growing problems, our institute launched the CA Sri Lanka Certificate Course in Forensic Accounting last year, because we believe our members can play a very important role in combating corruption."

The institute, which initially conducted the certificate programme only for CA Sri Lanka members, was compelled to

open it for non-CA members due to overwhelming requests. Lectures commenced for the second batch in April this year, and the participation profile comprises members from CA Sri Lanka, ACCA and CIMA.

The 15-week programme covers pertinent areas associated with modern forensic and investigative accounting, which will help accountants gain a thorough understanding on the principles and practices used by public accountants, internal auditors and others on how to examine financial and related information. ■

### CA Sri Lanka assures continuing independence of Annual Report Awards

Preparations are currently underway for the 53rd Annual Report Awards competition organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The competition, which has set a benchmark to enhance accountability and transparency, has seen tremendous growth over the years, with a large number of organisations from large conglomerates to small and medium-sized enterprises vying for honours at this prestigious annual competition. The awards has witnessed a consistent increase in applications on a yearly basis.

The first Annual Report Awards was held in 1964 with the primary objective of enhancing accountability and transparency. Throughout the competition's history, CA Sri Lanka has taken every effort to ensure that even the marking process has been carried out maintaining the important elements of transparency and accountability. Each year, the Annual Report Awards honours the most cohesive, clear and informative annual



reports in the country that best reflect an entity's operations, while going beyond their statutory boundaries of reporting. Annual reports are awarded under 22 sectors and for the disclosures in corporate governance, management commentary, integrated reporting, business model, capital management and corporate social responsibility.

Once every two years, an Annual Report Awards committee is appointed and the committee is responsible to ensure the smooth functioning of the process and the organising of the awards

ceremony for the respective two years. The committee is independent from the decision of selecting the winners, and the selection is purely based on the marks awarded by three independent marking panels.

The evaluation of the competition is carried out in three rounds. The initial selection process is conducted by a technical marking panel, comprising members of CA Sri Lanka. Then, the shortlisted annual reports are subjected to an intense technical review by a panel of industry experts comprising an eminent

panel with related industry experience. At the third and final stage of judging, the shortlisted annual reports are reviewed by the final panel of judges. The overall winners are selected purely on merit, irrespective of the sector and the financial performance.

Every effort has been taken and will be taken by CA Sri Lanka to ensure that the marking and judging processes are independent and organisations will be honoured for ensuring and enhancing transparency, accountability and good governance within.

The continuing increase in the number of applications each year is testament to the fact that this competition has and will always maintain the highest form of integrity, and organisations are honored for ensuring the core pillars set out in the objectives of the competition. CA Sri Lanka has assured that it will maintain the same clarity, transparency, independence and accountability at the Annual Report Awards this year as well, which will be held in December 2017. ■

### Young CA vehicle enthusiasts show off driving skills at CA Sri Lanka's YCAF Fun Drive 2017

A large group of vehicle enthusiasts, who are also chartered accountants, came together recently to show off their driving skills at the Fun Drive 2017 organised by the Young Chartered Accountants Forum (YCAF) of CA Sri Lanka.

The event brought together 14 teams, with the 'Aiyar & Company' team winning the fun drive, followed by

Wisdom Business Academy and 'Road Runners'. The fun drive, which kicked off from CA Sri Lanka Colombo 7, came to a halt at Aqua Pearl Hotel in Moratuwa, where the participants and enthusiasts were hosted to lunch, followed by the awards ceremony. The event was sponsored by Lucas Batteries, Mobil, PwC Sri Lanka and BDO Sri Lanka. ■



## Update

### John Keells Holdings continues to power CA Sri Lanka with lead sponsorship

Leading conglomerate, John Keells Holdings PLC (JKH) continued to power CA Sri Lanka with yet another lead sponsorship in an effort to help the professional body continue to develop and enhance the country's accounting profession.

JKH Group Finance Director Mr. Ronnie Peiris said that JKH is pleased to continue supporting CA Sri Lanka with the lead sponsorship. "JKH recognises the efforts made by CA Sri Lanka in enhancing the quality of financial statements, public disclosure and public information, and believes that its regular, and close interaction with CA



Sri Lanka has enabled the continuous improvement in content, and thereby the relevance of its financial statements," he said.

JKH has been supporting CA Sri Lanka with successive lead sponsorships since 2007.

Welcoming JKH onboard once again, President of CA Sri Lanka Mr. Lasantha Wickremasinghe highlighted that the continued support by the country's leading conglomerate is a strong testament of the confidence JKH has in

CA Sri Lanka and its continuing efforts to enhance the accounting profession. "We are delighted to partner with JKH once again, and I am certain that this partnership will be mutually beneficial," he added. ■

### CA Sri Lanka recognises 13 accredited learning partners

To ensure that the best professional education providers in Sri Lanka offer the benchmark CA qualification for the benefit of students across the country, CA Sri Lanka recently recognised 13 such professional education providers as Accredited Learning Partners.

The 13 Accredited Learning Partners will help produce versatile Chartered Accountants by strengthening the knowledge delivery process, while improving education standards in line with international standards as per the guidelines issued by the International Federation of Accountants (IFAC SMO 2) and the Report on the Observance of Standards and Codes - Accounting &



Auditing (ROSC Report) recommendations issued by the World Bank.

The learning partners, based across the country, were recognised under three categories: Executive, Business and Corporate.

Leading professional education providers like

the Institute for Accounting Studies, Colombo; JMC Jayasekara Management Centre (Pvt) Ltd, Colombo; Inspiro Business School, Nugegoda; and KBBS Campus, Colombo, were granted accreditation to conduct lectures for all three levels of the CA curriculum. Meanwhile, the IBA Cam-

pus, Kandy; the Institute of Business Management, Jaffna; the National Institute of Cooperative Development, Kandy; and Sipwin Institute, Kurunegala, were granted accreditation to conduct lectures for the Executive and Business levels of the CA qualification.

Meanwhile, the IPC Institute of Professional Creation (Pvt) Ltd, Kalutara South; the IPM Institute of Professional Management, Peradeniya; Jaffna College Undergraduate Department; MBS Educational Services (Minka Business School), Galle; and the Institute of Vision Launch (IVL), Batticaloa, were granted accreditation by CA Sri Lanka to conduct lectures for the Executive level. ■

### 31st International CA Students' Conference concludes on a high note

The 31st International CA Students' Conference, centering the theme 'Transmute, to Transmute', concluded on a high note with over 600 CA students from across the country and the South Asian region participating, where the importance to embrace change in the current dynamic global environment was underscored. Organised by CA Sri Lanka's Students Society, the conference held on 5th April 2017 at Cinnamon Lakeside brought together 21 student delegates representing India, Pakistan, Bangladesh and Nepal.

President of CA Sri Lanka Mr. Lasantha Wickremasinghe chaired the conference as the Chief Guest, while Chief Executive Officer Mr. Aruna Alwis and Patron of the CA Students' Society Mr. Reyaz Mihular were present as guests of honours. The inauguration also witnessed the participation of Vice President of CA Sri Lanka Mr. Jagath Perera and Mr. Sujeewa Rajapakshe, a past president of CA Sri Lanka.

Welcoming the delegates and special invitees, President of the CA Students' Society Mr. Jayashan Grero highlighted the importance of continuous change required within oneself to remain competitive in the current context.

In his speech, Mr. Wickremasinghe highlighted how technology has impacted the profession in ways never imagined, and therefore,

there was a growing need for all professionals to keep up with these technological advancements to be ahead of the changing times. "The world we operate in is changing, and as a profession, we cannot stop these advances; instead, we must collectively work to embrace the change and progress with the times, which is very important if we are to remain relevant," he said.

"I can see that the CA Students' Society has, in fact, lived up to its motto today, and transmuted themselves," said Mr. Reyaz Mihular, patron of the CA Students' Society and managing partner of KPMG Sri Lanka, congratulating the Students' Society. He also gave the young audience insight into the future, with recent developments such as self-driven vehicles and 3D printing, and how they would impact the global community.

Chief Executive of Singer Sri Lanka Mr. Asoka Peiris, during his session, continuously stressed on the fact that accountants have to change from their conventional 'number crunching' mindset to add value to the business. Ms. Veronique Koken, President at Aurora Aerospace, touched on a key aspect that is imperative for a person to change themselves and their attitude. She had an interactive session with the crowd by sharing her personal experiences.

The expert panel discussion was chaired by moder-



ator Mr. Travis Roche, who is the finance controller at Interblock Limited, and included Mr. Thumilan Sivaraj, founder and chairman of Blue Ocean Group of Companies; Mr. Samitha Perera, CEO of CBL Foods International; Mr. Thivanka Jayasinghe, partner at PwC; and Mr. Preethi Jayawardane, senior deputy chairman of the Sri Lanka Institute of Directors. The panel shared their views on 'Grooming to be enablers', which was followed by a Q&A session.

The student panel discussion proved to be one of the most informative and technical discussions of the day, and was themed 'CAS, the way forward.' The panel comprised Mr. Ashaff MSM as moderator, Ms. Yasasthi Ranasinghe, CA Student Panellist from Sri Lanka and the student presenters: Ms. Ramya Iyar, Sri Lanka; Ms. Sanskriti Agarwal, India; Mr. Araib Sultan, Pakistan; Ms. Arupa Saha, Bangladesh; and Ms. Akritya Acharya, Nepal.

Mr. Anushka Wijesinha, chief economist of the Ceylon Chamber of Commerce, enlightened the crowd with an economic approach. He also brought forward several examples of local companies that have changed conventional business practices. His speech was followed by a thought-provoking session by Mr. Iftikar Ahamed, managing director of Softlogic Life Insurance PLC.

Mr. Tishan Subasinghe, partner at BDO Partners, focused specifically on the profession and the change required for Chartered Accountants. He also highlighted that society has a positive and high perception with regard to Chartered Accountants and that everybody should therefore act accordingly.

The 31st International CA Students Conference also went down in history with the launch of the first-ever mobile application and the launch of the Fusion Business Magazine for 2017. ■

## Update

# CA Sri Lanka launches first-ever financial reporting quiz

For the first time in the country's history, CA Sri Lanka will launch a financial reporting quiz with the aim of enhancing the knowledge of aspiring accountants from across the country to ensure that the students will have the necessary knowledge on the topic when they commence their career as professional accountants.

The CA Quiz and Effective Communication Contest, which will be held later this year, also aims to develop the communication skills of aspiring accounting professionals. The contest will help students pursuing accounting and finance as a profession or as an academic qualification in Sri Lanka develop excellent English communication skills and enhance their knowledge on important topics like financial reporting.

The contest will be open for CA Sri Lanka students in public and non-public practice sectors, as well as students from local universities, other professional accounting bodies in the country and technical colleges (of accounting and finance).

President of CA Sri Lanka Mr. Lasantha Wickremasinghe said that the institute has always been at the forefront in launching landmark initiatives aimed at enhancing the knowledge of the country's student population, while offering various programmes for the development of accounting professionals and business leaders. He said



**“The CA Quiz and Effective Communication Contest will be an important platform for students to develop their skills and knowledge, so that when they progress as professionals, they will have the necessary knowledge, confidence and required skills to conduct their business without hesitation.”**

that the contest will provide aspiring accounting professionals, including future Chartered Accountants, the necessary boost to harness their knowledge and skills on pertinent subjects, which are a mandatory requirement when students progress to become professionals.

“The CA Quiz and Effective Communication Contest will be an important platform for students to develop their skills and knowledge, so that when they progress as professionals, they will have the necessary knowledge, confidence and the required skills to conduct their business without hesitation,” Mr. Wickremasinghe said.

He added that the contest will be an excellent platform to not only put to the test the skills of the students, but also help develop their communication skills in the English language.

The winners of the Sri Lankan competition will get the opportunity to take part in the Quiz and Elocution Contest organised by the South Asian Federation of Accountants (SAFA), which will be held next year.

Chief Executive Officer of CA Sri Lanka Mr. Aruna Alwis said that, as a responsible institute recognised as a leading tertiary education provider in the country, CA Sri Lanka has been having institute-level events like the best speaker's contest. “But, we decided to go a step further and open this contest for students from universities and other professional bodies apart from CA Sri Lanka. It is our national obligation to ensure that accounting students from across the country have the necessary skills and communication abilities when they progress from student to professional,” he added. ■

## The Chartered Accountants of Sri Lanka - Qatar Chapter

The Qatar Chapter of the Chartered Accountants of Sri Lanka held the following event for the year 2016/17:

A Technical event was held on 5 October 2016 at Radisson Blue titled “Trade Finance Products and Developments”. The guest speaker was Abdullahi M. Ghastalani, Head of Trade Finance at Al Khaliji Bank. The second Technical event, held on 26 October 2016 at Radisson Blue, was titled “Qatar Labour Law and Upcoming Changes”, and the guest speaker was Dr. Nizar Kochery, Managing Partner of Kochery and Partners.

The third Technical event was held on 16 November 2016 at Radisson Blue, titled “Developments in Financial Reporting and Auditing - IFRS & ISA”. Guest speakers at the event were Yusuf Hassan, Partner and Head of Accounting Advisory Services at KPMG, UAE; and Rizwan Yaseen, Director of KPMG, Qatar.

The fourth Technical event, a panel discussion titled “Designing a Finance Function to Meet Tomorrow's Challenges”, was hosted by guest speaker Manil Jayasinghe, Managing Partner of E&Y Sri Lanka. The fifth Technical event was titled “Risk Evaluation and Credit Worthiness of Customers”. The guest speaker was Rajesh Malghani, Head of Credit Risk and Evaluation at Doha Bank Q.S.C.

The sixth Technical event, titled “Introduction to Toastmasters”, was hosted by K. Thayalan, Division Q Director - Toastmasters International. And the seventh Technical event was titled “Implementation of VAT in GCC”. The guest speaker was Jennifer O'Sullivan, EY VAT Implementation Leader and Director of VAT Advisory at EY Doha. ■



## CA Sri Lanka's mentoring programme to nurture aspirations of new Chartered Accountants



To help new members of CA Sri Lanka reach their full professional potential, 15 distinguished members of the institute came forward to mentor over 75 new chartered accountants on enhancing their professional learning in order to reach their professional goals.

The mentoring programme titled ‘Nurturing Aspirations’ got underway recently, and brought together some of the country's well-known corporate leaders, who are also chartered accountants. Over a period of three months, they will mentor and guide the new members, helping them advance in their careers.

President of CA Sri Lanka Mr. Lasantha Wickremasinghe said that the primary objective of the mentoring programme was to impart invaluable knowledge, experience, wisdom and skills to the institute's new members, so they too will have the necessary aptitude to not only achieve personal and professional success, but also the ability to take the accounting profession and the institute forward, as well as contribute towards the country's development.

“Our members are considered our primary stakeholders, and as young members of the institute, you are our brand ambassadors; so, every effort has been taken to ensure that our brand ambassadors continue to command the respect that we as chartered accountants have enjoyed,” he said.

Mr. Wickremasinghe also noted that senior members of the institute too had

an important obligation to the younger generation to share their knowledge and help the newly qualified chartered accountants progress in their careers.

The 15 distinguished members (mentors) of the institute who will be part of the mentoring programme are Ajantha De Vas Gunasekara, Anura Perera, Arjuna Herath, Charindra Suresh Gunaratne, Deva Rodrigo, Indrajith Fernando, Mahendra Jayasekera, Nandika Buddhipala, Nilanthi Sivapragasam, Prabhu Mathavan, Reyaz Mihular, Samantha Rajapakse, Sujeewa Rajapakse, T. K. Bandaranayake and U. H. Palihakkara.

Over three months, the mentors will help young CA members reach their full potential by sharing knowledge and guidance on the core areas important for a chartered accountant, including the importance of adhering to ethics, teamwork, and the growing importance for chartered accountants to develop their soft skills and leadership abilities. During the programme, the mentors will also share their experiences and insights with the new members on how to handle difficult clients and situations. The programme will also cover organisation culture and industry trends, and the need for professionals to continue to keep up with changing trends. The mentors will also guide the new members on how to enhance their personal brand, while educating them on career guidance and goal setting to ensure they meet their professional goals. ■

# Ethics and Disciplinary Committees

## The Ethics Committee

Out of the 8 complaints brought forward from 2016, investigations on 6 complaints were concluded by May 2017, and the balance 2 investigations were laid by due to a lack of substance to the complaints. From January to May 2017, the Ethics Committee received 5 new complaints. The Ethics Committee inquired into the above complaints, of which investigations on 2 complaints were concluded and the balance 3 are still being inquired into. These complaints are primarily related to the alleged violation of Professional Misconduct given in the Second Schedule of the Act of Incorporation of the Institute (the "Act").

## Summary of new complaints received in 2017

**1** public notice was issued against three individuals, namely Mr. Sekara Gunawardena, Mr. Nihal Jayawardena and Mr. Rizan Muhammed, who while not being members of the Institute are falsely carrying on a partnership firm in the name and style of "N & R Associates, Chartered Accountants" at No. 86/24, Vauxhall Street, Colombo 02. The Ethics Committee investigation has been concluded and the matter has also been reported to the Fraud Investigations Bureau.

**2** It was brought to the notice of the Ethics Committee about the existence of a company website indicating that they are a firm of Chartered Accountants engaged in providing auditing and other services, which is not a practicing firm as per the records of the Members Division of the Institute, nevertheless operated by an active member of the Institute who has not obtained a

practicing certificate. During the investigation, it was revealed that the company in question has not come into operation. The member concerned was advised to remove the reference made to auditing services from all communications, advertising material and the website. The Ethics Committee investigation will be concluded shortly.

**3** student of the Institute has submitted a training agreement entered into with a firm of Chartered Accountants, while being a fulltime employee of another company. A member of the Institute has signed the said training agreement as the supervisor. The Ethics Committee is investigating into the conduct of the member concerned.

**4** Three shareholders of a company complained against its auditor for supporting a fraudulent act of two Directors of the company in relation to accounting sales proceeds of a land of the said company at a lesser value than the actual value by issuing an unqualified audit report. The sales commission and brokers fees (for the sale of the land) set out in the financial statement

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.

were 60% and 13.5% (of the transaction value), respectively, which appeared to be an exaggeration of the actual fee that would have been paid. During the investigation conducted by the Ethics Committee, it was revealed that the auditor has obtained clarifications from the company on the questioned figures and no professional misconduct has been committed by the auditor concerned.

**5** A complaint alleged that an auditor/audit firm has submitted income tax returns/ documents of a partnership business (client) to the Department of Inland Revenue without the authorization of the partners. The investigation revealed the complaint to be frivolous.

## Disciplinary Committees

From January to May 2017, on the recommendations of the Ethics Committee, 03 Disciplinary Committees were appointed by the Council to inquire into 03 prima facie cases of Professional Misconduct. At present, all 5 Disciplinary Committee inquiries are in progress.

## Summary of cases referred to Disciplinary Inquiries in 2017

**1** 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.

**2** Failure of an auditor to present the audit opinion and 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.

**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. The Ethics Committee (acting in the capacity of the Investigating Committee) revealed a significant difference in the audit opinions, as the original audit opinion was a clean opinion and the re-audit was a disclaimer of opinion. Furthermore, there is a significant change in both the figures and notes in the financial statements (subsequent to the re-audit). The working papers relating to the original audit in question were not available, and therefore, there was a lack of evidence to support the fact that a proper audit has been carried out in accordance with the required Standards. A prima facie case of professional misconduct was established under Section 20 Rule1.1 of The Act.

Furthermore, it was revealed that the SLSQC 1, which requires an engagement quality control review for all audits of financial statements of listed entities, has not been complied with the original audit in question. The Ethics Committee concluded that this amounts to professional negligence of both partners of the firm. A prima facie case of professional misconduct on the part of both members was established under Section 20 Rule1.2 of The Act.

## External members invited to the Ethics Committee

With the approval of the Council, the Ethics Committee invited 3 eminent legal personalities to join the Ethics Committee deliberations. This is to provide transparency to the Ethics Committee deliberations. The participation of these 3 personalities in the Ethics Committee has significantly added to the value of the discussions in the Committee.

## Brief profiles of the 3 legal personalities are as follows:

**Prof. Sharya Scharenguivel** – A Profes-

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.

sor of Law; the Head of the Department of Faculty of Private and Comparative law, University of Colombo; Director of the Centre for Study of Human Rights, University of Colombo; and a well-known legal academic. Her teaching specialization extends to the areas of Legal Systems, Labour Law, Family Law, and Women's and Children's Rights. Being an academic, Prof. Sharya has published a number of books, journal articles and research work on her areas of specialization. She has also been awarded fellowships for her achievements from various universities including Harvard Law School and University of Oxford, of which she is a graduate. Prof. Sharya has held executive and other positions on boards of international and national organizations including several committees on law reforms. She was the editor of the University of Colombo review, and serves on the Faculty Board of the Faculty of Law, the Ethics Committee and the Research Committee of the University of Colombo at present.

**Dr. Wickrema Weerasooria** – A lawyer and a well-known legal academic. Since 2005, he has been functioning as Sri Lanka's Insurance Ombudsman. Dr. Weerasooria also served the country's public sector as the Permanent Secretary of the Ministry of Plan Implementation under the Executive President from 1977 to 1987, and later was an Advisor in the Ministry of Higher Education and a Consultant in

Financial Sector Reforms in the country's Reserve Bank. Dr. Weerasooria was also the country's Ambassador to Australia and New Zealand, and other Pacific countries. Apart from his service in the Public and Diplomatic Sector, he has been a Director of several leading private sector companies. As an academic, Dr. Weerasooria has published over 20 legal texts in Commercial and Banking Law, and his Australian text on banking (now in its sixth edition) is titled Weerasooria's "Banking Law of Australia". Currently, while functioning as an Advisor to the President, Dr. Weerasooria teaches at several Sri Lankan higher educational institutions including the Postgraduate Institute of Management (PIM).

**Mr. Franklyn Amerasinghe** – He holds a Bachelor of Law degree and is an Attorney at Law. Mr. Amerasinghe was the Director General of the EFC from 1990 to 2000. Thereafter, he joined the ILO and was the Senior Employers Specialist for East Asia. While at the ILO, Mr. Amerasinghe did research into the area of human behavior at the workplace and brought out training material on conflict management for the ILO. He served on the ILO panel for Joint Dispute Resolution for ILO staff. He was also a board member of the International Centre for the Collaborative Workplace (ICCW). Mr. Amerasinghe is a mediator and has done mediation both in Sri Lanka and abroad on employment and other issues. He has authored many books on a range of topics covering law, conflict management, employee relations and CSR. Mr. Amerasinghe has also produced training material for the ILO and others on social dialogue, negotiation and conflict management, and conducted training in more than a dozen countries in Asia and Italy. He has also been involved in several projects with the ILO and other organizations, most of the work being in the area of social dialogue and conflict management at the workplace. He was on a panel of trainers for the ILO Turin Centre. Mr. Amerasinghe is a Founder Trustee of the Association for Dialogue and Conflict Resolution (AD-COR). He is the consultant to the ACCA for Sustainability reporting. Currently, Mr. Amerasinghe is a member of the Commercial Arbitration Board ICLP. ■

# MOBILE PHONE MANIA



Whether you keep up with the latest technology and upgrade your phone every time a new version of your current phone is released to the market, or if you are contemplating getting a new smartphone that will help you organise your day, there are several exciting models to consider, ranging from Google Pixel to Xiaomi Redmi Note 4.

## Google Pixel

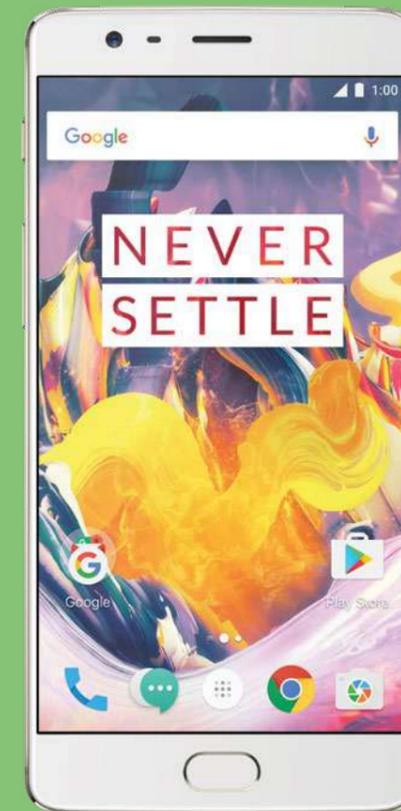
If you are a fan of Google, the Google Pixel might be the phone for you. It is definitely a great flagship mobile, providing an extremely smooth performance with a bright and colorful full HD display. What's more, it's one phone that does not need you to use both hands, thus enabling comfortable one-handed use for today's multitaskers. Despite the great features, it has its drawbacks such as a not-so-impressive battery life, the Assistant who needs more fine tuning to reach its full potential and the high price point.

**Price: Rs182,000**

## iphone 7 Plus

The latest mobile from Apple, the iPhone 7 Plus is a photographer's dream, and a great phone too. It has dual rear cameras that deliver true 2x optical zoom. Another plus for the latest iPhone is that its battery lasts longer than that of the previous model, the iPhone 7. It is also water resistant. But even this amazing phone has its drawbacks. One main issue is the lack of a standard headphone jack, forcing the user to either opt for Lightning, the included adapter, or go wireless. The phone is also quite big and its high price tag does not help. That said, it is still a good phone and a great camera for serious mobile photographers.

**Price: Rs130,000**



## Xiaomi Redmi Note 4

Xiaomi is not as well-known as some of the other brands available in the market, yet its Redmi Note 4 offers a great overall package that is a good choice for someone looking for a mid-range smartphone. To its advantage are the good design and build quality of the phone, and great battery life and performance. It also boasts a bright display, but the camera quality is average. Some key disadvantages are that fast charging is limited and its fingerprint authentication is pretty slow. All that said, it may not be the perfect phone, but it is definitely value for money for someone who wants to buy a smartphone without breaking the bank.

**Price: Rs34,000**



## One Plus 3T

The One Plus 3T is an advanced version of the One Plus 3 and, true to its name, includes a number of new and improved features. One of the greatest aspects about this phone is its battery life, which lasts all day. The light metal design is thin and features a 1080p display. The performance of the phone is both smooth and responsive, and it also has a fast fingerprint sensor. Its front facing camera is improved and the rear camera is also great all around. The operating system, Oxygen, has also been refined, and the phone comes with a dual sim. All these improvements come at a cost and the price of One Plus 3T is on the high side. Yet, they are worth it because it adds to a better user experience, although there remain drawbacks such as its single bottom firing speaker and the lack of expandable storage.

**Price: Rs74,000**





# Nimbin: Australia's alternative lifestyle capital

Many of Australia's modern cultural practices merged from the maverick village of Nimbin

Situated in the sub-tropical Northern Rivers region of New South Wales, the village and hinterland of Nimbin are known as the "Rainbow Region", because its unique humid climate amid hills and valleys gives rise to an abundance of rainbows. It is famous for its laidback, alternative lifestyle. The area was inhabited by Bundjalung Aboriginal people, but in the 19th century, the Australian Red Cedar (*Toona australis*), which flourished in the area, attracted loggers – the so-called "cedar-seekers". Once they had cleared the trees and after the Bundjalungs had been moved to reservations, dairy farmers moved in. However, the dairy industry collapsed in the 1960s. The region's economy was revived after the 1973 Aquarius Festival, which attracted students, visionaries and hippies. New-Age counter-culture people began moving in. Today, it is a Mecca to artists, actors, musicians, writers, environmentalists, scientists, technologists and other intellectuals, who view it as a place for holistic living in tune with the environment.

### ▶ Getting there and getting about

The best way to get to Nimbin is to fly to Lismore Airport, to which there are several flights each day from Sydney in commuter airliners operated by Regional Express (Rex). Lismore is a small but modern airport that also serves the seaside resort of Byron Bay. There is a bus service from the airport to Lismore and thence (three times a day) to Nimbin. An alternative is to hire a taxi or a car - possibly a stretch-limo - to cover the 32km from the airport to Nimbin. There are bus and coach services from major Australian centres to Lismore as well. It is also possible to fly from Brisbane to Gold Coast Airport, 81km away, and connect up with a bus, taxi or hiring car. The most suitable way to get around the Nimbin village itself is on foot. However, for longer journeys, particularly to the natural reserves, wheels are required.

### ▶ Wollumbin-Mt Warning

The landmark mountain named Wollumbin,

### The Kunsthaus Museum houses art dating from the medieval period to the present, including Impressionism, Dada, Cubism, Expressionism and Pop Art.

meaning “cloud catcher”, by the Bundjalung Aboriginal people who inhabited the area, to whom it is sacred, is the first peak on Australia’s mainland to catch the morning rays of the sun at the autumn and spring equinoxes. Captain James Cook, who observed the peak from sea in 1770, named it Mt Warning, because it gave warning of the appropriately named Danger Reefs offshore. The peak is a remnant of the long-extinct Tweed Volcano (which erupted 20 million years ago), the caldera of which is 40km in diameter, the largest in the Southern Hemisphere and one of the largest in the world. It is set in the Wollumbin National Park, part of the UNESCO World Heritage-listed Gondwana Rainforests of Australia, which preserve species dating back over 180 million years when Australia was a part of the Gondwana super-continent. There is a 9km-long walking track, upon which adventurous souls may embark on a 5-hour journey through antique landscape. The exertion is rewarded at the summit by a fantastic panorama.



WOLLUMBIN MOUNT WARNING



### ▶ Nightcap National Park

Based on the Nightcap Range, on the south-eastern rim of the Tweed caldera, Nightcap National Park is also a part of the UNESCO heritage-listed Gondwana Rainforests of Australia. A haven for endangered plant and animal species, it became a national park after local environmentalists protested against and shut down logging operations. The protests, during which environmentalists formed human barricades, became known as “The battle at Terania Creek”, a significant landmark in Nimbin’s history. Because it is home to endangered frogs, bathing is not permitted in Terania Creek, but the meadowland surrounded by rainforests abounding in birds and goannas provides an excellent picnic area. There is a short walk from there, under a canopy of Bangalow palms, to the 30-metre-high Protester Falls, named after the environmental activists. The name Nightcap derives from “night camp” - it having been on the historic track connecting the Tweed and Richmond valleys, now part of the Historic Nightcap walking track.

### ▶ Nimbin Rocks

The closest of the Tweed Volcano remnants to Nimbin (just 3km), the Nimbin Rocks are colossal volcanic rock extrusions just outside the wall of the caldera. The rocks are sacred to the Bundjalung Aboriginal people who believe that the rocks were home to a powerful shaman called Nyimbunji (“clever man”), who lived in the “Dream-time” - the “everywhen” of Aboriginal understanding of the world and its creation. Nyimbunji gave his name (via the famous Anglo-Saxon inability to correctly pronounce foreign words) to the rocks, and hence to the village itself. They were also the initiation grounds for young boys.

The association of the rocks with healing and interpreting dreams fired the mystic imagination of the New Age people who moved to Nimbin after 1973, and set the stage for the alternative lifestyle for which the region became famous. Because the Nimbin Rocks are sacred, they cannot be approached, but must be observed from a viewing area on the road.

### ▶ Arts and crafts

Nimbin is unique for its mural streetscape of psychedelic, rainforest and indigenous art. The village’s main Cullen Street is host to several art and craft shops, as well as the Nimbin Artists Gallery, which showcases works of the local artistic community, exhibiting paintings, sculpture, glass, jewellery, ceramics, clothing and other handicrafts. It also hosts the Nimbin Autumn Arts Extravaganza, held for three and a half weeks around Easter every year.

Also on Cullen Street is the Nimbin Candle Factory, located in an old butter factory from the village’s dairy days. The local community, as it expanded, required a supply of non-toxic, slow-burning, smokeless candles for the confined spaces in the caravans, tents and tepees they used to live in. Nowadays, most of the factory’s coloured, dinner and scented candles are made for the broader market. Nimbin candles are made using the same high-grade paraffin wax as used in food processing (such as for wrapping cheese) and the same vegetable dyes used in batik art. Each wick is carefully and continuously dipped in wax to create a perfect taper, using a unique water-driven dipping deck, similar to those used

NIGHTCAP RANGES NATIONAL PARK, AUSTRALIA

OUTSIDE THE HAPPY HIGH HERBS SHOP IN NIMBIN



in 11th century monasteries. The factory works seven days a week and is open to visitors.

The Blue Knob Hall Art Gallery was established to promote the awareness and appreciation of art within the community and to visitors, and to foster professional art practice. Situated 7km north of Nimbin, in the shadow of the sacred Aboriginal landmark of Lillian Rock, the gallery has themed exhibitions. Workshops on arts and crafts are held on weekends. On Saturdays, there is a farmers' market, a mixture of art and food. There is also a restaurant, Café Blue Knob, serving organic food with a view of Blue Knob (Mt Burrell).

#### ▶ Environmental technology

Being highly environmentally conscious, Nimbin is a centre for appropriate technology and renewable energy. The highlight is the 45kW Nimbin Community Solar Farm, which is mounted on six community buildings. It is supplemented by over 50 grid interactive solar and several hundred off-grid standalone systems, which together make Nimbin the solar power capital of Australia. The solar farm was designed by the local Rainbow Power Company, which designs, manufactures and installs renewable energy systems. Its office building, on the appropriately named Alternative Way, is powered by a 10kW grid-feed solar array and is designed to save energy, incorporating rainwater-harvesting and solar water heating. The waterless composting toilets can, however, be off-putting for Sri Lankans! Guided tours of the building are available, and there are courses on the weekend about "living with solar".

Just a kilometre from the Nimbin village centre is Djanbung Gardens, which attracts visitors and students from around the world. The gardens were created to demonstrate permaculture and educate visitors about designing sustainable environments to provide for human needs in harmony with natural ecology and processes. Visitors can tour the gardens, the resource centre, the eco-buildings and working permaculture systems. Djanbung Gardens is run by Permaculture College Australia, a non-profit providing training and education in permaculture design and practices. It is adjacent to the Jarlanbah Permaculture Hamlet, NSW's first community-owned permaculture-designed eco-village project. Here, there are no walls or fences, solar energy is maximised, everyone is self-reliant in water and everything is within walking distance.

#### ▶ MardiGrass

Nimbin became famous for cannabis, which was available freely despite being banned.



MARDIGRASS FEATURES ACTIVITIES SUCH AS PROCESSIONS, COMEDY, DANCE, MUSIC AND ART SHOWS, POLITICAL FORA, AND THE "HEMP OLYMPIX"

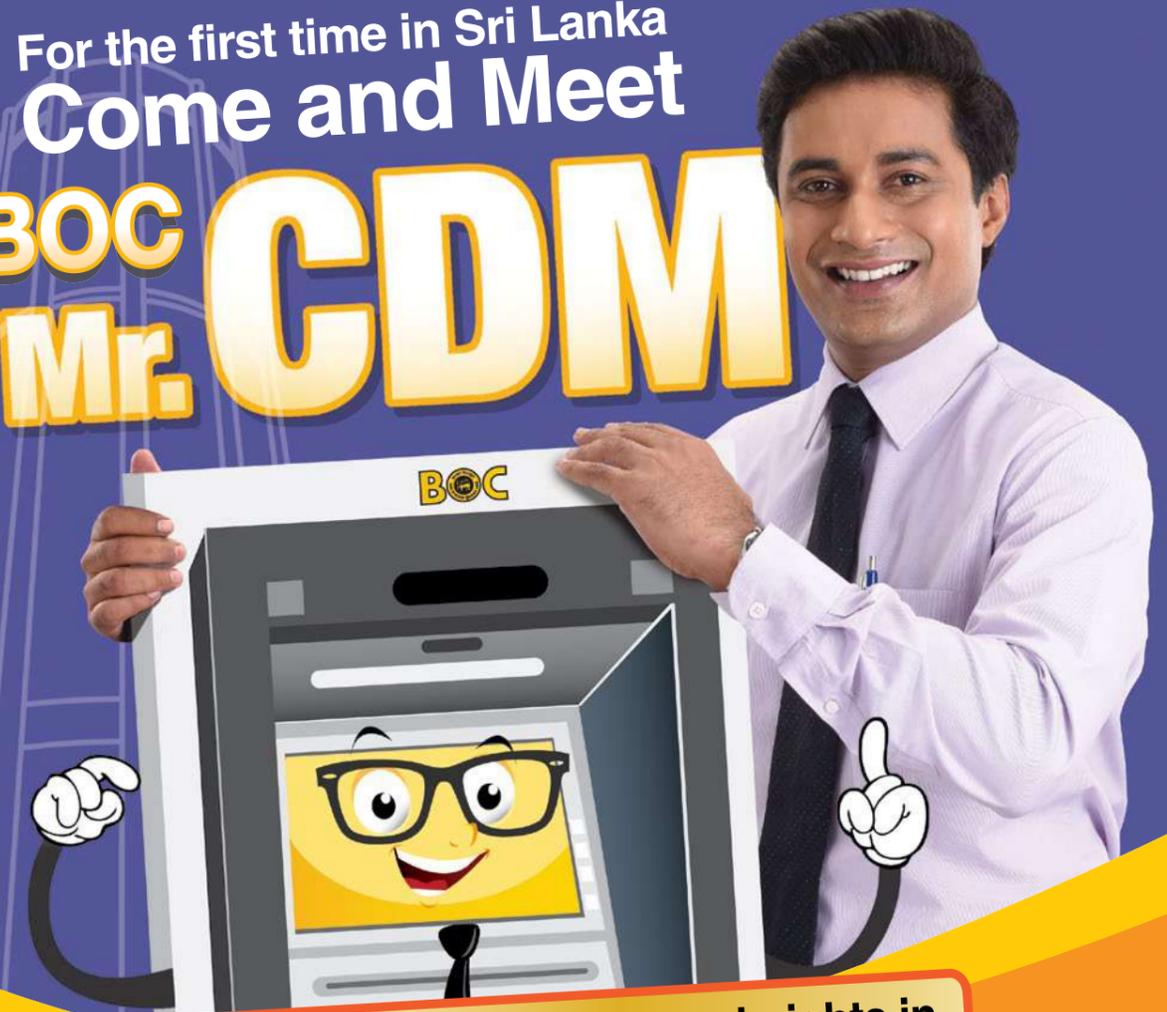
However, when the local constabulary started getting strict with pot smoking, a protest movement started. This is celebrated by MardiGrass, loosely based on Sydney's annual Mardi Gras, around May Day every year. It features a number of related activities such as processions, comedy, dance, music and art shows, political fora, and the "Hemp Olympix" - which contains events such as "bong throw", "joint rolling" and "police triathlon". The festival culminates in the Mardi-Grass Parade and Rally, featuring green-costumed "Ganja Faeries" dancing in Aboriginal style, floats and other cannabis-related paraphernalia.

#### ▶ Shopping, eating, drinking and sleeping

Nimbin is full of colourful shops and cafes, most of which are located on the village's main Cullen Street. Here is the original shop of High Happy Herb Company, now a chain selling herbs, herbal teas, tonics and medications. At other shops, one may buy or browse through books, organic food, or handmade clothing, jewellery, toys and souvenirs. There are also Nimbin Market and Nimbin Farmers' Market, at which homemade items and organic foods can be bought. Nimbin has a unique gastronomic culture, distinguished by being based on mainly locally sourced organic food. The rustic traditional country cuisine is supplemented by African, East Asian, French, German, Greek and Indian food styles, including gluten free, vegan and vegetarian options. Traditional pub beer is available at Nimbin Hotel. Accommodation is provided by an array of hotels, motels, B&Bs, guest houses, country retreats, farms and hostels. ■

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