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INTELLIGENCE & INSIGHT FROM CA SRI LANKA
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The 2020 Chartered Accountant

The brand new syllabus launched by CA Sri Lanka aims to produce the Chartered Accountant of the future

CA
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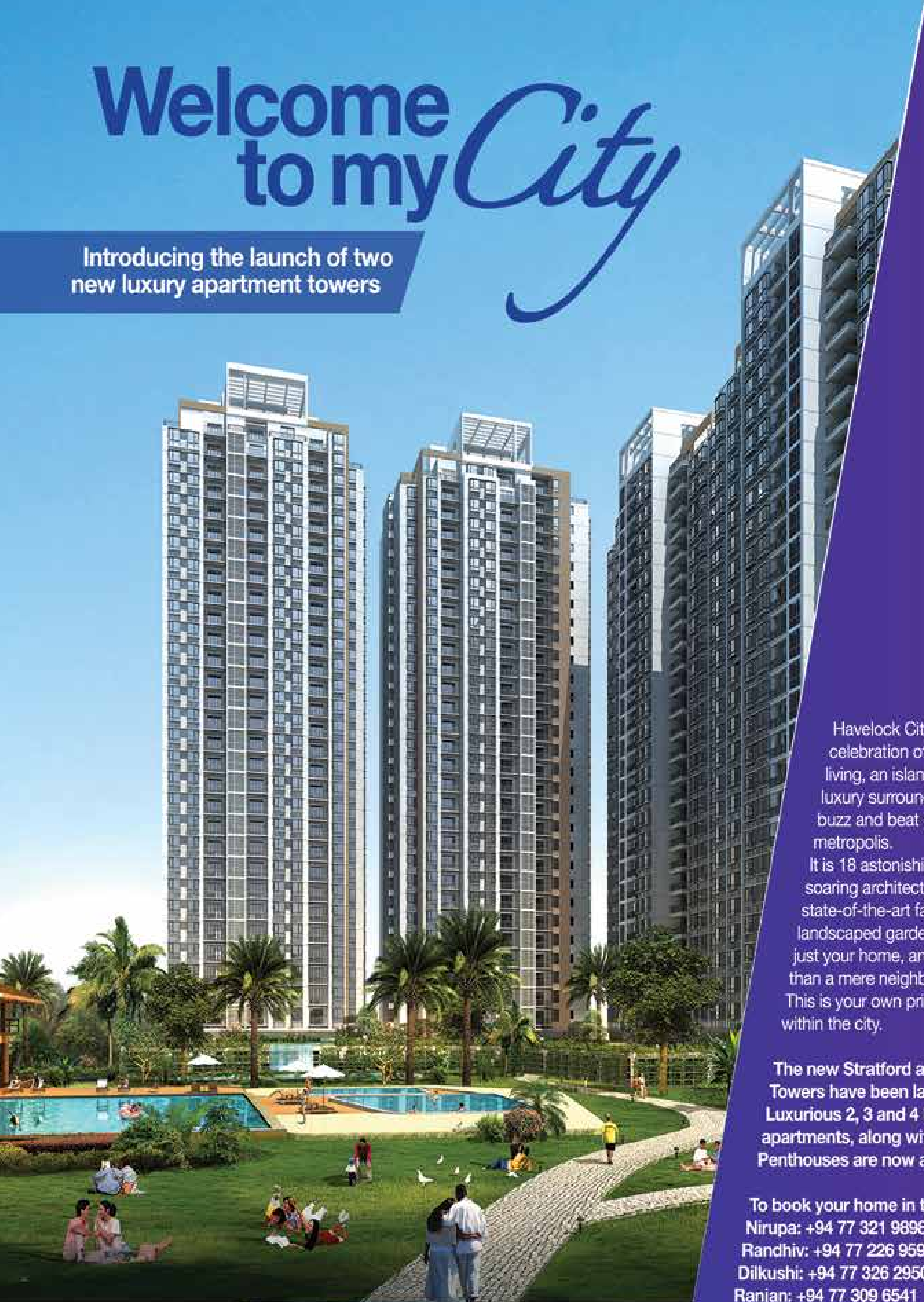

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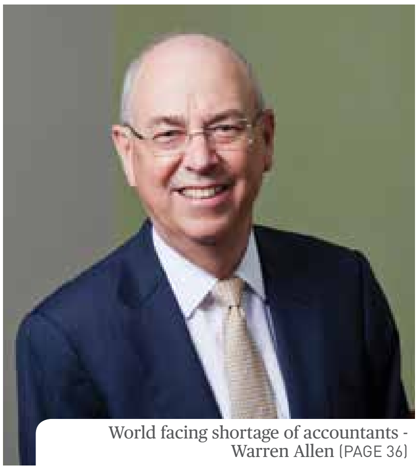

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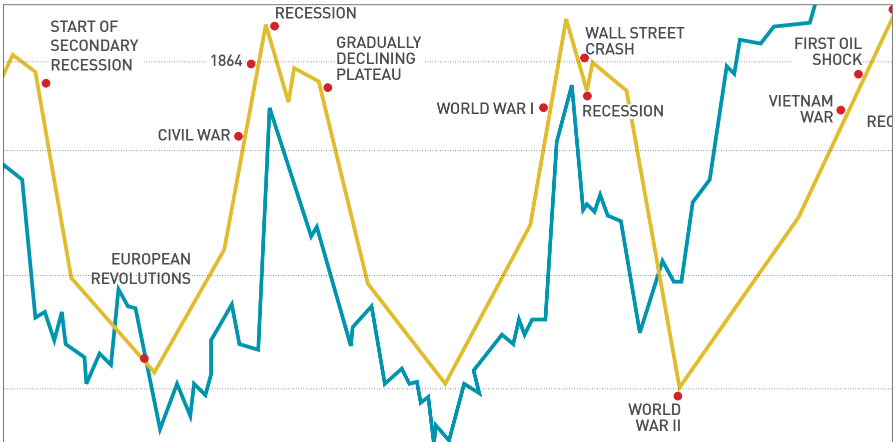

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Intelligence & Insight from CA Sri Lanka

Grooming finance professionals

Not only are Chartered Accountants in short supply but they seem to be 'recession-proof' as well. Worldwide, demand for the accounting and other value-adding skills that finance professionals have is growing.

In China alone there is a huge shortage of accountants while in the US accountancy schools are full for the first time in many years, according to Warren Allen, President of the International Federation of Accountants, who was interviewed by The Abacus on his recent visit. The availability of skilled finance professionals and the use of the latest international accounting standards also give confidence to investors. And while other professionals like bankers lost their jobs during the economic crisis, few accountants did so.

This edition covers in detail the need for the skills of finance professionals and what's being done to produce them. Our cover story focuses on the revolutionary new syllabus being introduced to produce the Chartered Accountants of the future, a subject also dealt with by the new president of CA Sri Lanka, Arjuna Herath, in an interview in our 'Portrait' section.
In 'Focus On', our technical section, we deal in depth with another topic of current interest, the new IFRS rules under which companies have just begun to file their returns and their tax implications.

And for those with the travel bug, who want to shake off the stresses and strains of the daily professional grind, we offer a story on a little known Irish town with many interesting historical connections.

CA
THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF SRI LANKA

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 organizations gain long-term sustainable economic growth.

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A word from the President

Being progressive, staying relevant

CA Sri Lanka today commands wide respect across all spheres, both locally and internationally. This prestigious Institute has been built on the hard work, commitment and continuous contribution of our past presidents, council members, valued members, and the staff of the institute.

In a journey counting over five decades, the Institute of Chartered Accountants of Sri Lanka has played a significant role as a catalyst in the development and growth of the country. The accounting profession in this country has been very progressive and stayed very current and relevant in this fast changing and complex world.

CA Sri Lanka in its capacity as the national body of accountants is committed to effectively partner all stakeholders in the country's journey to become a break-out nation and be the wonder of Asia, as it actively and continuously plays the role of catalyst in the transformation taking place in the public sector and the private sector and society at large.

CA Sri Lanka today commands wide respect across all spheres, both locally and internationally. This prestigious Institute has been built on the hard work, commitment and continuous contribution of our past presidents, council members, valued members, and the staff of the institute. And in my role as the 22nd President of the Institute I am committed to add value to what has been already done and strengthen the prestige and the pre-eminence that the Institute commands in relation to the field of accounting and finance in this country.

As a first step in this direction and to lay the foundation to effectively partner all our stakeholders, we have just launched a new revolutionary curriculum that will produce our 2020 Chartered Accountant. This new curriculum meets with all the required International Standards and will meet the aspirations of all our stakeholders including employers and industry. The new curriculum will ensure that the 2020 Chartered Accountant becomes a true partner in business and will create value, enable value, preserve value and report value. We believe that the CA qualification will be the most sought after qualification for a business leader.

We will give leadership to all the accounting and financial professionals in this country with renewed vigour irrespective of whether they are our members or not. And to ensure this objective becomes a reality, we will soon open the membership of our faculties to the entire accounting and finance fraternity in this country. We will continue to work closely with all other accounting bodies in Sri Lanka to ensure that accounting and finance professionals fulfil the aspirations of our nation.

As a responsible institute, we are conscious of the critical anchor role that the public sector plays in the economic development and progress of the country, and thus we have embraced the accounting and finance professionals working in the public sector as part of CA Sri Lanka and we are very committed to add value and nurture them. In further enhancing their professional standards, we will soon announce a Chartered Accountant equivalent qualification supported by the Chartered Institute of Public Finance and Accountancy of the United Kingdom for anyone who wishes to specialize in accounting and finance for the public sector.

In order to facilitate the BPO industry become a thrust industry in the forward march of this country we have partnered with the Information and Communication Technology Agency of Sri Lanka and the Sri Lanka Association of Software and Service Companies to offer a groundbreaking professional qualification for the Financial Accounting Outsourcing sector, as Sri Lanka aspires to become the business process outsourcing hub in the world.

CA Sri Lanka is committed to continuously focus on improving the quality of financial reporting and auditing in the light of lessons that we learn on an ongoing basis in implementing Financial Reporting Standards and the Auditing Standards. This is paramount to be able to respond effectively to changes taking place in the economic and business environments and every effort will continuously be made to further strengthen the reputation the country has as a nation with a solid financial landscape. In order to ensure that the SME sector and the Micro enterprises are not left out of this process and to ensure they are also significant beneficiaries of this effort and they become the key partner in the development process, we will soon revamp the Accounting Standard applicable to SMEs and introduce a new Accounting Standard for Micro enterprises. Hopefully this will somewhat address the challenges that this sector faces in accessing finance.

As we forge ahead with a new dynamism to add value to our Institute, profession and the country, there is no doubt that we will be stronger together.

Arjuna Herath
President
CA Sri Lanka

CA Sri Lanka is committed to continuously focus on improving the quality of financial reporting and auditing in the light of lessons that we learn on an ongoing basis in implementing Financial Reporting Standards and the Auditing Standards.

Periscope

BANK CONSOLIDATION: LONG-TERM PAY OFF DESPITE CHALLENGES

33
Number of banks

58
Number of nonbank finance companies like licensed finance companies and specialized leasing companies which the regulator wants reduced to about 20

15-20%
Expected banking sector loan growth this year

5.2%
NPLs as of Sept. 30, 2013, from 3.7% as of Dec. 31, 2012, largely attributable to pawning loans

14.4%
of total loans as of March 2013 were pawning loans

The central bank's plan to consolidate the country's banking and financial sector, with the help of tax breaks, could be advantageous over time, short-term challenges notwithstanding, rating agencies say.

Standard & Poor's Ratings Services anticipates that the fragmented banking industry would gain from the creation of fewer but larger and stronger players.

"But much depends on whether regulations will strengthen the banks and whether their capital, operations, and risk management will improve along with this consolidation," it said in a report.

The government and the regulator are taking various steps to encourage industry consolidation as part of their financial sector master plan. Banks are being given tax concessions as an incentive to merge, and the central bank has offered to bear the merger consultation fees, S&P Ratings said.

It also proposes to increase the minimum capital requirement by January 2016, making it necessary for the small banks and finance companies to merge to reach the desired size. It plans to more than double the minimum capital levels for licensed commercial banks and increase the requirement for licensed specialized banks and nonbank finance companies, too.

Fitch Ratings said the plan to bring about financial sector consolidation is a "strong statement of intent of raising systemic stability" and boosting long-term economic development.

"If effective, the Master Plan should improve the credit profile of financial institutions, strengthen franchises, and reduce supervisory burden."

The top five banks already account for two-thirds of system assets, and the system could become more concentrated.

The authorities wish to build up at least five major banks with an asset base of more than a trillion rupees (US$7.7bn) within a "reasonable" period. Only one bank met this threshold at end-September 2013, Fitch said.

The central bank said it will view a situation in which any small finance company remains unabsorbed after March 31, 2015, as a possible threat to financial system stability and would direct any large bank or finance company to implement a suitable consolidation.

As part of the master plan, the central bank has asked two development banks, National Development Bank and DFCC Bank, to explore the possibility of merging with each other, with a view to create a strong development bank.

"Consolidation could bring about synergies, improve efficiency and ease the supervisory burden, in our view," S&P Ratings said. "However, it is uncertain if consolidation will lead to an improvement in banks' risk management practices. Much will depend on the implementation and execution of the plan. Banks may not get the full benefits of a merger without employee rationalization or redeployment."

Also, S&P Ratings said, the transition phase could be bumpy and lead to difficulties in integration, with raising capital to meet the proposed minimum capital levels being difficult for some of the smaller banks.

The government's large fiscal deficit could limit its ability to inject capital into the banks it owns.

S&P Ratings said banks' asset quality and earnings are likely to remain weak in 2014. ■

340 MILLION KG

ANNUAL TEA PRODUCTION IN 2013, THE HIGHEST EVER, 3.6% MORE THAN IN 2012. THE PREVIOUS RECORD WAS 331 MILLION KG ACHIEVED IN 2010

139.13%

INCREASE IN FOOTWEAR EXPORTS IN 2013 TO $29.27 MILLION

$2 BILLION

EXPECTED INDIAN INVESTMENTS IN THE ISLAND IN THE NEXT TWO YEARS

ON THE TRAIL OF ACCOUNTING FLAWS

SLAASMB WIDENS SCOPE

1,300
Number of entities to be monitored by SLAASMB

5%
Extent of the market capitalization of the Colombo Stock Exchange affected by SLAASMB corrections made to financial statements of listed companies

RS. 58 BILLION
Corrections made by SLAASMB during the last 15 years


Ajith S. Ratnayake

The Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) is to widen its scope of coverage and has almost tripled its technical staff.

The additional capacity would enable SLAASMB to review financial statements of almost all 1,300 entities within its purview in the period 1.7.2013 to 30.6.2014 and annually thereafter, according to the outgoing Director General Ajith S Ratnayake, who retired in January 2014.

The new staff were provided a three-month full time training programme on International Financial Reporting Standards.

Until now SLAASMB had been taking only a sample of 300 entities for monitoring.

"But in future we're going to monitor all," said Ratnayake who had joined SLAASMB as its first Director General in 1998. "It was mostly the large-sized private companies that were getting missed out. Even though we had a sample of 300 we ensured all listed firms were covered every other year."

SLAASMB has advertised for a new Director General. He must be a Fellow Member of the Institute of Chartered Accountants of Sri Lanka with at least 15 years of practice as a CFO in the Corporate Sector and/or a Partner in audit firms. He can also be a high ranking officer in Regulatory/Supervisory/Standards-setting Institutions having the purview of review of financial statements and audits locally and/or abroad.

Accounting errors or incorrect treatment in financial statements which SLAASMB asked the management of entities under its purview to correct amounted to Rs58 billion over the last 15 years, it said in a statement. Rs 5 billion of this was among listed companies.

Corrections made to financial statements of listed companies are estimated to have affected their prices (mostly down) to an extent of 5% of the market capitalization of the Colombo Stock Exchange.

In 2013 SLAASMB commenced issuing letters of comfort to companies whose financial statements did not have any issues in relation to compliance with standards. SLAASMB issued letters of comfort to 275 companies during the year.

SLAASMB monitors compliance with accounting standards by entities within its purview and auditing standards by their auditors.

Entities within its purview, known as specified business enterprises (SBEs) include all quoted companies, companies carrying on business which are important for the purpose of monitoring (such as banking, finance, insurance, and leasing), other large companies (public and private), and public corporations.

The Board has the power to compound an offence for a sum of money not exceeding a third of the maximum fine. In cases where noncompliance was done deliberately to mislead the public the courts may impose penalties extending up to five years imprisonment. ■

TAX ON SALES HURTS RETAIL

Fashion retailer Odel has reported lower revenue in the nine months ending December 31, 2013 owing to a slow down in retail sales and the impact of Value Added Tax on sales.

However, net profit rose 12.7 % to Rs195.7 million in the nine months ending December 31, 2013 from the year before with a sharp increase in other income and lower interest costs. Sales fell 2.5% to Rs3.4 billion in the period.

Odel reported a sharp 40% fall in net profit in its third or December 2013 quarter to Rs46 million from a year ago while sales also fell.

Rs385 million
CAPITAL EXPENDITURE DURING THE NINE MONTHS TO DECEMBER 2013, UP FROM RS64 MILLION IN 2012

In the nine-month period other income rose sharply, to Rs181 million from Rs11.7 million, mainly from investment proceeds of Odel's December 2012 Rights issues combined with a 31% reduction in finance costs.

Odel said it refurbished and upgraded its Nugegoda store, re-designed and re-launched its store at the Bandaranaike International Airport and opened two new stores - a 'Luv SL' store at Negombo, and the second largest Odel store in Sri Lanka, at K-Zone Ja-Ela. ■

Periscope

Call to use vehicle tax revenue to improve public transport

25-30%
of the cost of sales of export industries is for transport

Government revenue from vehicle taxes could be put to better use by improving public road and rail transport instead of being spent on building roads, Professor Amal Kumarage, a transport expert, has suggested.

If the present influx of vehicle imports does not moderate, the country is heading towards gridlock with valuable time being lost owing to traffic jams, he warned at a public forum organised by the Central Bank.

“Rather than controlling private vehicles I believe we have gone to the point of encouraging private vehicles,” he said. “One may ask how can that be when we charge 100%, 200% plus, plus tax (on vehicle imports). This is where the myth of high taxes stopping motorisation is a fallacy - it’s only a myth. All it says is that instead of buying a new car you buy a reconditioned car or a van, or a three-wheeler. Once you get used to your own vehicle there’s no going back unless the transport system is really improved.”

Sri Lanka now has 130 vehicles per 1,000 people and is clearly heading towards a car-oriented economy and a single mode future, not multi-modal future in terms of transportation.

“It’s becoming increasingly impossible to maintain a particular lifestyle with public transport and then you are captive to the car,” Kumarage said noting that as income increases vehicle ownership also increases.

Cities like Hong Kong and Singapore have managed to restrict vehicle ownership mainly by providing top-class public transport systems.

There’s plenty of scope to improve bus transport which is not satisfactory and the railways too which, compared with other countries, is not so bad, Kumarage said.

While government investment on modernising long-neglected roads was good, in the future the country should have a more multimodal, sustainable approach which will not lead to more and more vehicles, he said.

“The current trend actually encourages motor vehicles. Vehicle taxes are today becoming a source for road building. The amount of money government gets through vehicle imports plus income generated from sale of fuel, particularly petrol, is higher by a large margin than what it spends on roads.

“So it is good business,” Kumarage said. “It is good business to import vehicles, impose heavy duty and build roads. And the more roads you build, the theory goes, the more cars are needed to fill it. And therefore you have more business, and more money coming in.”

The country should see if these transportation taxes are sustainable.

“I believe we should translate these short-term financial profits to the Treasury to economic gains to the economy. We should look at a cross-subsidy between private and public transport as done abroad. The current procedures encourage import of very high-priced vehicles because it gives that much more revenue to the government. For some of those vehicle imports, you have to pay Rs4-5 million in taxes.

JUKI OPENS TRAINING FACILITY IN COLOMBO

Juki Corporation, the world’s largest industrial sewing machine manufacturer, has opened its second South Asian training facility in Colombo.

“We can support Sri Lanka to address its manpower issues, if any, in its apparel sector with our new tech innovations and latest training,” said Saito Noriaki, the Singapore-based Executive Vice President of Juki.

About 45% of Juki Corp’s $ 463.1 million sales revenues in the first half of 2013 came from Asia (other than China) and 30% came from China. About 75% of Juki Corp’s revenues were generated by “woven machines” while knitwear machines generated 10% of the revenue. Juki’s first centre in South Asia was set up in India.

“From the very beginning ‘Juki’ has been with Sri Lanka’s apparel sector in all its stages of development,” said Rishad Bathiudeen, Minister of Industry & Commerce.

“In fact, the word ‘Juki’ has, at times, symbolized Sri Lanka’s own apparel industry due to its wide presence and role.”

750,000 JUKI MACHINES ARE INSTALLED IN GARMENT FACTORIES AROUND THE COUNTRY

50% OF INDUSTRIAL LEVEL SEWING MACHINES IN THE APPAREL INDUSTRY ARE JUKI MACHINES

HARMONISING POWER, WATER SUPPLY SEEN AS ANSWER TO WATER CRISIS

Harmonising and integrating management of power and water supply and irrigation could help provide solutions to the looming water shortage, according to Dr S. Padmanabhan, an energy expert.

One of the biggest users of power is the water supply and distribution organisation, said Padmanabhan, former Program Director SARI/E (South Asia Regional Initiative for Energy Integration), a USAID program to support regional energy integration.

He recalled how a couple of years ago when he was in Sri Lanka with a World Bank team looking at the demand side in the power sector they found that one of the greatest opportunities to reduce power demand in Colombo was if the water supply and electricity supply organisations were to come together and synchronise their operations.

That's because "pumping water is one of the major contributors to peak load," Padmanabhan told an Asian energy security summit in Colombo organised by the Independent Power Producers Association of India. "And that's the case in Delhi too, where the peak is related to pumping. So if you have these sectors talking to one another one can make a difference."

Padmanabhan said rapidly depleting ground water levels in India and other parts of South Asia was forcing farmers to drill more to deeper bore wells, resulting in more water now being pumped out than gets replenished through natural sources.

"We are pumping water from aquifers which were never pumped ever in human history - 3-4 million-year-old water," he declared.

On average, power required to pump water has doubled, if not tripled, in the last seven years in the region.

A practical solution is the "nexus approach", of integrating and harmonising watershed management, irrigation, and delivery of power driven by use of IT such as 'smart meters' for water and electricity.

"The global debate is not about water, energy, food in isolation - it's about the nexus - shifting focus on maximising energy, water and food production as individual sectors to optimisation based on the nexus approach," Padmanabhan said. "Water for food probably has the highest social-political significance."

In India, farmers were moving from shallow tube wells of about 15-metre depth to bore wells 200-300 metres deep, as the water table falls owing to over-extraction.

India has 23 million pump-sets and, together with Pakistan, has more pump-sets and more irrigation structures than China, USA, Iran and Mexico combined, he said.

The average horsepower of a pump in a bore well in a state like Rajasthan has increased from 10HP to 30-40 HP and in Delhi has gone from 5HP to 15HP as farmers were using more powerful pumps because of low voltage with rural areas supplied by low tension lines over long distances.

Areas that need to integrate range from watershed management and irrigation and crop efficiency to improvements in pump efficiency and the quality and delivery of power. A pilot project in India has validated the concept, yielding huge improvements in energy efficiency, improving the financial viability of utilities; and improvements in water conservation and management that actually saw a reversal in the ground water situation - water levels actually went up.

This requires water side interventions like reducing rain water outflow from fields and energy side interventions like reducing line losses with high quality distribution systems and high efficiency pumps, Padmanabhan said.

200-300 METRES DEPTH OF BORE WELLS AS WATER TABLE FALLS

3-4 MILLION-YEAR-OLD WATER IS NOW BEING PUMPED FROM AQUIFERS

CLEANER PRODUCTION LEADER

MAS Active Asialine Division, a strategic business unit of the apparel exporter, located in Middeniya won the 2013 National Gold Award for Cleaner Production given by the National Cleaner Production Centre.

The factory, which supplies such global brands as GAP, Nike, and Polo Ralph Lauren, reported $750,000 in cost savings for its clients in its first year.

Middeniya Asialine has a workforce of around 1600.

Among other award winners in the Silver and Bronze categories were such firms as Habarana's Cinnamon Lodge, Lankem Ceylon Ltd, Wijeya Newspapers, ACL Cables, MAS Active Synergy (Avissawella), and Coca Cola Beverages Sri Lanka.

$750,000 COST SAVINGS ACHIEVED IN FIRST YEAR

Periscope

64% OF JANASHAKTHI'S INVESTMENTS ARE IN FIXED DEPOSITS AND GOVERNMENT SECURITIES

REDUCED LIFE CLAIMS WINS JANASHAKTHI INSURANCE RATINGS UPGRADE

RAM Ratings Lanka has upgraded Janashakthi Insurance's long- and short-term claims-paying ability ratings to A and P2, respectively from A- and P2 with the outlook on the long term rating deemed stable.

"The upgrade reflects the continued improvement in the company's life segment where it now compares well against its higher rated peers," a statement said.

"The company's ratings are supported by its good competitive position, underwriting performance in the life segment and above-average capitalisation levels. On the other hand, the ratings are tempered by its average, albeit improving, underwriting performance in the highly competitive general segment."

Janashakthi is the fifth-largest player in life insurance, making up 5.44% of industry gross written premiums (GWPs) as at end-December 2012.

The rating agency acknowledges that Janashakthi has been successful in managing its claims in both segments while also implementing tight cost controls that have aided its overall performance.

RAM Ratings Lanka said it sees as positive Janashakthi's ability to keep its claims intact, with reduced life claims and relatively unchanged general claims aided by its measures to manage its claims and weed out unprofitable business in the general segment.

While the underwriting performance of its life segment is on an upward trend, net underwriting losses in Janashakthi's general segment have contracted over the years.

Although the firm started focusing on life insurance, it has over the years achieved strong growth in the general segment. Janashakthi is Sri Lanka's third-largest general insurer, accounting for 11.45% of the industry's GWPs.

RAM Ratings Lanka said the insurance industry experienced sluggish growth during the period amid a slowdown in vehicle sales and rising interest rates and inflationary pressure that hampered growth in life insurance. ■

LOW-MARGIN DATA REPLACING VOICE, TEXT REVENUE AT SLT

Changes in the revenue mix of Sri Lanka Telecom, as low-margin data services replace relatively higher-margin voice and text revenue, could cause profits to dip this year although industry consolidation and a regulatory tariff floor on voice services will support profitability.

Fitch Ratings said it expects SLT's 2014 revenue to rise by 5%, driven by mobile data and fixed-broadband services, which will more than offset declines in fixed-voice and international revenue.

But the rating agency forecasts operating EBITDAR (Earnings Before Interest, Taxation, Depreciation, Amortization and Rent) margin to fall by 50bps-100bps each year during 2014-17 compared with 31.5% in 2013.

SLT's dividends would likely remain similar to the 2012 level at Rs1.5 billion, Fitch said.

During 2014-17 as SLT's ratio of capex to revenue will remain high at around 28%-30% as it will invest Rs18-20 billion each year to expand its fibre broadband and 3G/4G mobile infrastructure.

The number of industry participants will likely reduce to three from five as it is likely that SLT will acquire Hutchison Lanka and third-largest operator Etisalat could acquire Bharti Airtel Limited's unprofitable Sri Lanka subsidiary, Airtel Lanka, the fourth-largest operator. "The regulatory tariff floor on voice services has prevented smaller operators from competing on price and has left them unviable in the medium term," Fitch said.

Fitch Ratings has confirmed SLT's Long-Term Foreign- and Local-Currency Issuer Default Ratings at 'BB- and SLT's National Long-Term Rating at 'AAA(lka)' with a stable outlook.

SLT's potential debt-funded acquisition of Hutchison Lanka could increase its leverage and would lead to a downgrade of its National Long-Term Rating to 'AA+(lka)', Fitch said.

The acquisition would be negative for SLT's credit profile as it would double its net debt and dilute operating EBITDAR margin because Hutchison Lanka has EBITDAR losses. ■

800,000

NUMBER OF SUBSCRIBERS SLT WILL GAIN BY BUYING HUTCHISON LANKA

INTERNATIONAL

Caribbean tax haven got more investment than India, Brazil

$92 BILLION
FDI LURED BY THE BVI IN 2013

$28 BILLION
FDI IN INDIA

The British Virgin Islands, a Caribbean archipelago that's a tax haven, got more foreign direct investment last year than the emerging economies of India and Brazil combined, a United Nations survey said.
The BVI, otherwise dependent on tourism, jumped up the league table of top investment destinations in the past five years and lured $92 billion of foreign cash in 2013, according to the UN Conference on Trade and Development (UNCTAD).
That placed the BVI, which levies zero corporation or income tax, in fourth position in attracting investment globally, dwarfing Brazil and India which got $63 billion and $28 billion respectively.
The world's biggest economy, United States, attracted $159 billion, and China, the world's second biggest economy, got $127 billion.
The lure of low taxes was also demonstrated by four relatively small economies - Belgium, Ireland, the Netherlands and Luxembourg - that offer a tax-friendly environment for investment, particularly for special purpose entities, accounting for much of the aggregate inflows to the EU in recent years.
Luxembourg shot up from 198th place in 2012 for FDI to 15th last year with inflows totalling $31 billion.
These economies are hosts to a large number of Trans-National Corporations' (TNCs') financial or treasury functions. Having fallen by over US$169 billion in 2012, inflows to these four economies grew by over US$100 billion in 2013.
Elsewhere in the EU, Germany (+392% to US$32.3 billion), Spain (+37% to US$37.1 billion) and Italy (from US$0.1 billion to US$9.9 billion) saw a substantial recovery in their FDI inflows.
For most countries, foreign direct investment mainly consists of companies spending on cross-border corporate acquisitions and new overseas projects.
But for the British Virgin Islands, most of the money is transferred quickly in and out of the country or cash moved through the treasury accounts of large firms, according to UNCTAD.
"In the British Virgin Islands there are some financial companies that perform the role of treasuries of the TNCs, as a kind of profit unit or profit centre," said James Zhan, director of UNCTAD's investment and enterprise division.
"The TNCs' revenues basically flow from their foreign affiliates in countries with higher tax rates to there" news agencies reported Zhan as telling a news conference.
The BVIs' annual FDI inflow was 40% up from a year ago and continues a trend that began after the global economic crisis and governments began cracking down on tax avoidance.
Zhan said the BVIs' boom in investment would be unlikely to continue at the same pace as regulators were determined to stop such flows.
Public anger over tax avoidance by TNCs has intensified amid austerity programmes undertaken by governments the world over, which are seeking to balance their budgets by cutting back spending on welfare and public services.
The main casualty of such regulation was likely to be big companies' treasury flows, Zhan said. ■

DETECTING TAX DODGERS IN DIGITAL ECONOMY

The OECD is going ahead with its action plan on tackling use of transfer pricing for tax evasion, especially in intangibles in the digital economy, with discussion drafts already out for public comment and a final report expected later this year.
A report on the feasibility of using multilateral instruments to implement BEPS (Base Erosion and Profit Shifting) measures and amend bilateral tax treaties is planned to be finalized by September this year.
The OECD said there were several difficult issues but none appears insurmountable.
"Stated simply, BEPS arises because under the existing rules multinational enterprises (MNEs) are often able to artificially separate the allocation of their taxable profits from the jurisdictions in which these profits arise," an OECD report said.
"This can result in income going untaxed anywhere, and significantly reduces the corporate income tax paid by MNEs in the jurisdictions where they operate, thus affecting competition, distorting investment decisions and reducing overall trust in the tax system."
It noted that most BEPS planning is legal and that if governments are unhappy with results, "the rules should be changed."
But since no single country acting unilaterally can effectively address the issue there's a need for a multilaterally agreed solution.
A discussion draft on abuse of bilateral tax treaties was to be released in March 2014 followed by a discussion draft on 'hybrid mismatch arrangements' such as hybrid financial instruments or hybrid transfers that give rise to double deduction or a deduction with no matching inclusion.
The first meeting of the OECD Task Force was in October 2013 which did an analysis of business models and identification of special features of digital economy players (such as mobility, reliance on data, network effects, multi-sides business models).
The effects of these features on BEPS strategies were examined and actions to tackle BEPS in the digital economy proposed.
The BEPS Action Plan says the current transfer pricing system leads to serious BEPS concerns, but replacing the arm's length principle is not the solution and that special measures may be necessary. It aims to ensure that transfer pricing outcomes are in line with value creation. ■

By
Vinod Moonesinghe

K-waves and innovation

Technological innovation has been central to economic development in the modern era, not merely through the adoption of new inventions as marketable products, but especially by the application to production of new labour- and time-saving inventions and techniques. The spread of innovation has occurred in surges - technological revolutions - which have been associated with 'long waves' of economic growth known as K-waves. The theory of K-waves has provided a method of predicting how economies will behave and can provide valuable insights to the business strategists of Sri Lanka.

At present the world is going through the longest period of economic stagnation since the great depression following the 1929 Wall Street Crash. Although Sri Lanka, buoyed up by the post-Eelam-conflict peace boom, appears to have escaped the worst of it, it has nevertheless not been immune to the recession. The upsurge of domestic economic activity has masked deeper problems.

There have been regular predictions of an upturn in the eight years following the World Financial Crisis of 2007-8, but none of these have come to pass - although there have been several short spurts of growth. Now mainstream economic opinion forecasts the beginning of global economic recovery around 2017-2020. The underpinning for this estimation lies in K-wave theory, which proposes that the economy grows and shrinks in 'long waves', each occupying several short business cycles.

The theory owes its name to Nikolai Kondratiev, a Soviet economist who in the 1920s postulated that modern capitalism has developed in periodic waves. This appeared at odds with Soviet dictator Josef Stalin's view that global capitalism was on the point of collapse, so he had the economist imprisoned in 1930 and executed in 1938. After Kondratiev's death, the Austrian-American economist Joseph Schumpeter, who popularised the theory in the West, suggested naming the waves after him.

K-waves occur as 20-30 year-long periods of economic upturn, followed by 20-30 year-long periods of downturn. Some economists have characterised them as having four distinct phases: Spring (moderate growth following a recession), Summer (steep growth), Autumn (growth flattens) and Winter (recession or depression).

In the period following World War II, the theory fell from favour, until it was revived by the Marxist economist Ernest Mandel, who predicted an economic slowdown from about 1970. Following the economic downturn of the 2000s, the theory has once again come into vogue.

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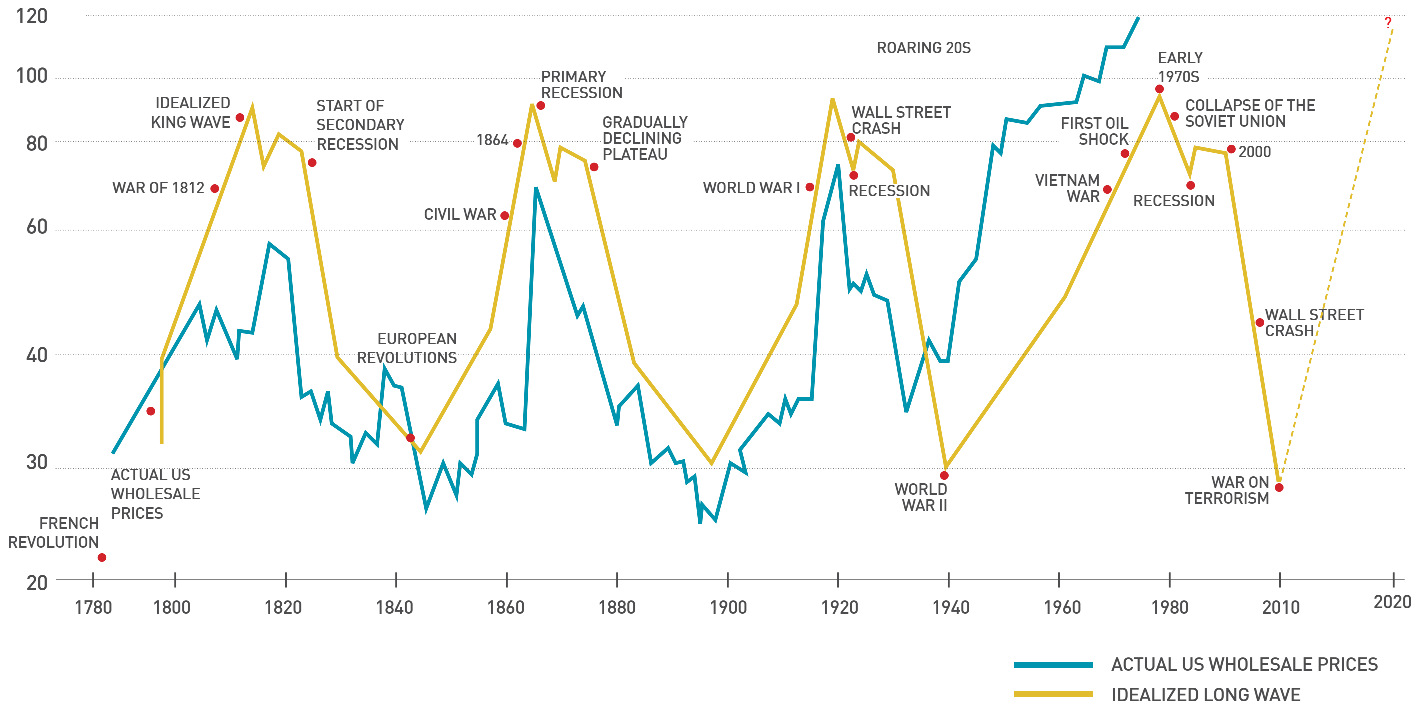
There have been several such waves since the French Revolution in 1789. They have occurred across different countries, although not at precisely the same times. However, the closer meshing together of the world economy due to globalisation has tended to synchronise the waves more closely.

Of course, they are not necessarily cyclical

Perspective

THE KONDRATIEV WAVE



phenomena, and their timing and behaviour have been affected by external factors. For example, growth has been stimulated by the increase in wealth in Britain due to its colonisation of India in the 18th century, by the 1848 revolutions in Europe and by the opening of new markets following the collapse of the Soviet Union. Conversely, growth has been inhibited by the destruction caused by wars and by the oil shocks of the last part of the 20th century.

K-wave theory predicts the end of the current prolonged recession in 2017-20, to be followed by a period of rapid growth. Sri Lanka has about five years to work out a strategy to latch onto this growth in a meaningful fashion.

The country's economy, powered by the traditional plantation export and garment sectors, as well as by remittances from its workers abroad, lies at the crossroads. The growth in per capita income means that wages

K-wave theory predicts the end of the current prolonged recession in 2017-20, to be followed by a period of rapid growth. Sri Lanka has about five years to work out a strategy to latch onto this growth in a meaningful fashion.

are increasing. Hence the high-labour garment and plantations sectors will no longer be competitive, and workers may price themselves out of overseas labour markets. Sustainable economic growth requires that the economy shift to high-technology, high value-added areas. Our strategists need to identify growth technologies and shape our economic policies for innovation.

K-waves have been associated with technological innovation. The periods of upturn have been identified with a series of 'Technological Revolutions' (starting with the Industrial Revolution) which introduced new technologies, reducing labour input and production times. Most new technologies emerged at the end of a 'down' wave, but only grew in the following 'up' wave as businesses looked at new products to promote and at new techniques for reducing costs.

For example, although the motor car was

invented by Daimler and Benz in the 1880s, its Age only really began with Ford's use of mass-production techniques during the 1894-1913 'up' wave. 'Flexible manufacturing' or 'group technology', which increased the efficiency of batch production, was first developed in the 1920s, but only took off in the post-World War II 'up' wave.

Also associated with K-waves is the emergence of new economies. Britain came from under the Netherlands' shadow in the Industrial Revolution, becoming a superpower. France, Germany and the USA emerged during the First Technological Revolution; Austria (especially its Czech part), Australia, Italy, and Japan during the Second. The Third saw the appearance on the world economic performers' stage of the 'Asian Tigers', Brazil, and South Africa. By a concatenation of circumstances, China and India jumped forward in the current 'down' wave, but can be expected to be important players during the Fourth Technological Revolution, anticipated in the near future. They will be joined by emerging economies such as Slovakia, Thailand and Venezuela, and possibly Vietnam. The question facing Sri Lanka's economic strategists is whether the country has what it takes to join them and be an emergent economy.

Looking back at the innovations which powered each previous Technological Revolution, we can perhaps extrapolate forwards and identify possible new materials, products and techniques which will drive the next.

Notable cutting-edge Sri Lankan inventions from that period were the fluidised bed tea drier and solar refrigeration and air-conditioning

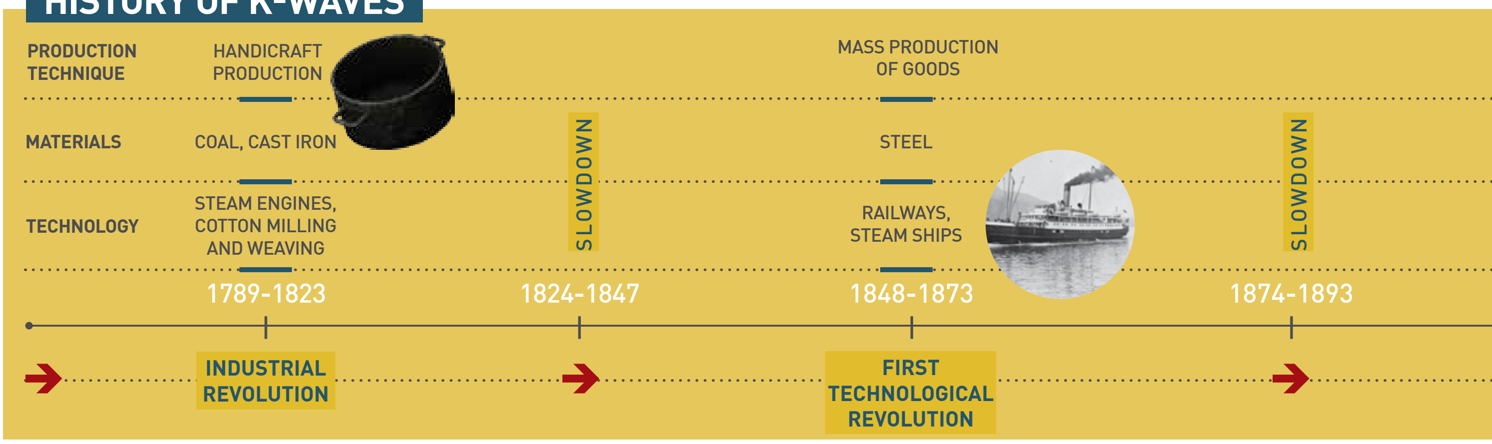
Likely products are mobile electronic devices, electric vehicles and high-speed trains. The uptake of superjumbo aeroplanes, such as the Airbus A-380, has been stymied by the lack of growth in tourism, but will take off as incomes increase - with serious implications for Sri Lanka's tourism industry. One innovation which did not make it due to the stagnation in world trade - but which may be a serious contender in the next 'up' wave (especially important for Sri Lanka, as a sea hub) - is the fast ship, a cargo transporter using the high-speed technology associated with military vessels.

The current recession has kept prices of fossil fuels low in comparison to pre-2008 price growth. However, as petroleum runs out and as energy demand increases rapidly, energy and power needs will be fulfilled increasingly by renewable resources. New renewables technologies will be supplemented by novel energy-saving techniques.

Cutting-edge materials science will revolve around nano-technology, transforming existing materials into super-performers, requiring less bulk but giving higher quality. Production costs will be decreased by the increased use of robotics and advanced automation. Design and manufacture, which are already computer-aided, will become far more automated. Advanced robotics will enable more flexible manufacture. Bio- technology is also expected to be part of the new growth curve.

The high-speed data network connectivity provided by fibre optics, is anticipated to do

HISTORY OF K-WAVES



for knowledge and information exchange (and hence innovation) what railways (during the First Technological Revolution), and motorways (during the Third) did for trade and transport. At present only South Korea has country-wide connectivity, although Australia is planning for it.

Having identified the key areas of technology, Sri Lankan business must be willing to innovate. Unfortunately, Sri Lanka has not been very good at innovation, the economy providing very little incentive. In the 1956-1977 import-substitution era, the exigencies of the closed economy led to a burst of technological innovation. Notable cutting-edge Sri Lankan inventions from that period were the fluidised bed tea drier and solar refrigeration and air-conditioning. However, since the opening up of the economy, the country has depended very much on imports, and has neglected its own research and development sector.

Incredibly, the country only spends 0.11% of its gross domestic product on research and development - whereas Japan spends 3.67% and South Korea, 3.74%. Of this, 72% is contributed by the government, only 8% coming from the private sector; comparing badly with developed countries, with over 65% of R & D coming from the private sector. We have fewer than a hundred researchers per million of the population - compared with over 5,000 in Japan and South Korea - and less than a quarter works in the vital natural sciences.

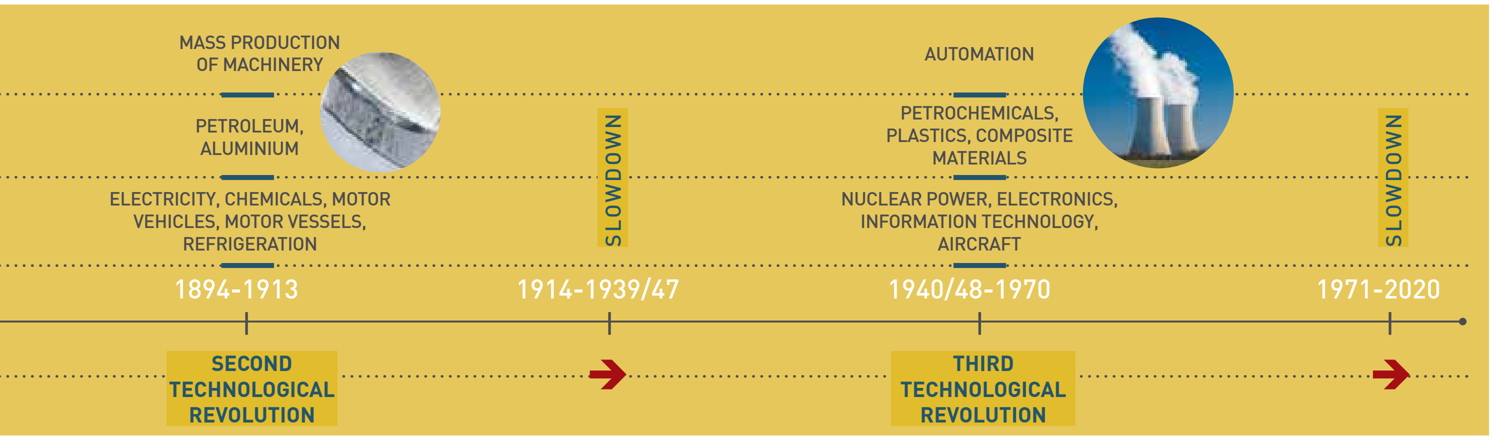
The other limiting factor is the poor level of technical learning in Sri Lanka. According to UNESCO, our education system only provides a thin stratum of people with suitable skills, including English and IT proficiency. Most of the products of the university system need retraining to suit them for work in the commercial and industrial sectors. Knowledge management in both public and private institutions is also poor, so often new recruits have no idea what they are doing.

Looking back at the innovations which powered each previous Technological Revolution, we can perhaps extrapolate forwards and identify possible new materials, products and techniques which will drive the next.

Meanwhile other countries are looking to adapt their educational systems to tomorrow's needs. Australia is implementing the Gonski Report's recommendations, seeking to increase student abilities in comparison with other leading countries. China promotes reading of science fiction by children to increase their imagination and thereby their innovative capacity. We need to make a serious effort to catch up.

The good news is that Sri Lanka does have some exemplary Public-Private Partnership institutions which can show the way forward, notably the Sri Lanka Institute of Nano Technology (SLINTEC). 'Smart' technology is being developed here, with work on solutions to existing problems to be implemented with already-existing resources.

However, if we are to take full advantage of the next 'up' wave, we need a hundred more SLINTECs, developing the innovations which can power our way forward as an emerging technological nation. ■



By
Padraig Colman

Regulating the Regulators

Does deregulation protect the public or give licence to fraudsters? Inadequate regulation in developed countries has led to consumers losing money and bank managers facing criminal charges. The financial system has become far too complex for existing regulation

One often sees features in the Sri Lankan media in which respected entrepreneurs call for further de-regulation in the financial sector in order to ease the business of doing business. It is quite legitimate to criticise the inertia caused by unnecessary bureaucracy and red tape. However, we should remember that it was not an excess of regulation that brought about the financial crisis in the US and the EU. De-regulation is unlikely to protect the public or investors.

Regulators, whether appointed by national governments or international groups, have the task of protecting investors, maintaining orderly markets and promoting financial stability. For example, in 1974, the central bank governors of the Group of Ten countries established the Basel Committee on Banking Supervision (BCBS) to provide a forum for regular cooperation on bank supervision. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. The Committee also frames guidelines and standards.

157

The number of times the US Financial Crisis Inquiry Commission uses variants of the word "fraud" in its final report in describing what led to the US crisis

In general, regulators promulgate and implement laws and rules that govern what financial institutions such as banks, brokers and investment companies can do. The range of regulatory activities can include setting

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Perspective

minimum standards for capital and conduct, making regular inspections, and investigating and prosecuting misconduct.

I believe that this did not work too well in Ireland. *Rialtóir Airgeadais* was the sole regulator of all financial institutions in Ireland from May 2003 until October 2010 and was a constituent part of the Central Bank of Ireland. One former CEO was Patrick Neary, who retired early over the handling of the Regulator's investigation into the €87 million in secret directors' loans at Anglo Irish Bank.

The German Regulator warned the Irish Regulator in 2004 that a German bank's Irish subsidiaries were involved in risky and under-scrutinised transactions worth as much as €30bn or 20 times the parent bank's capitalisation. Despite the warning, in 2007, the Irish Regulator approved another investment vehicle from the same bank. Two months later, the stable of off-balance sheet companies needed a €17.3bn bailout from the German association of savings banks. The German regulator also blamed the Irish Regulator for the failure of another German bank that the German government had to bail out at a cost of €102 billion.

The Financial Services Consultative Consumer Panel said that most Irish consumers lost significant amounts of money because of the inadequacies of the financial regulatory structure. It also criticised the inadequate response of the regulator to threats to consumers, including the Irish property bubble.

Ernst & Young refused to appear before a parliamentary committee following the collapse of Anglo Irish Bank and was investigated about its audits of that bank. Nevertheless, the Irish Regulator hired Ernst & Young to advise on the €440 billion bank guarantee scheme in January 2009.

Transparency International noted that the Irish Regulator had found substantial departures from credit policy during inspections of banks, but failed adequately to follow up on its concerns. One wag likened the actions of the Irish Regulator to "the Vatican running an abortion clinic". The European Commission in a November 2010 review of the financial crisis said "Some national supervisory authorities failed dramatically. We know that in Ireland there was almost no supervision of the large banks."

The possibility of criminal prosecutions against managers in Irish banks who committed offences was compromised because the Regulator was aware of the alleged offences but took no action to stop them. This allowed wrongdoers the opportunity to claim they were acting with the approval of regulatory authorities. Nevertheless, three executives of Anglo Irish are each facing 16 charges of unlawfully providing financial assistance to individuals for the purpose of buying shares in Anglo Irish Bank in 2008. About 350 people volunteered to serve on the jury, giving an indication of the interest in the trial, which may last for six months.

Criminal prosecutions are rare in the US. The Financial Crisis Inquiry Commission, in its final report, uses variants of the word "fraud" no fewer than 157 times in describing what led to the US crisis, concluding that there was a "systemic breakdown," not just in accountability, but also in ethical behaviour. In Ireland, the failure of regulation arose from a combination of factors: incompetence, lack of intellectual firepower, understaffing, cronyism and plain lethargy. In other countries, regulators are ineffectual for similar reasons; sometimes complexity defeats them. Alan Greenspan wrote that financial regulators are required to oversee a system far more complex than what existed when the regulations still governing financial markets were originally written.

Critics argue that the Commodity Futures Trading Commission, which is tasked with overseeing derivatives that were at the centre of the US crisis, is drastically underfunded. The CFTC gets $215 million to regulate markets. The notional value of the markets the agency tries to regulate is mushrooming from $45 trillion in commodities swaps to a nearly $400 trillion derivatives trading industry.

The argument of the banksters/fraudsters goes: Markets have become too complex for effective human intervention. The only strategy that can work is maintaining maximum freedom of action for key market participants such as hedge funds, private equity funds, and investment banks. Regulators and legislators, in cosy complicity with the banks, have taken very few real and restrictive measures concerning financial companies.

In the UK, the Vickers Commission presented its recommendations to the authorities in 2011. Vickers said that banks should ring-fence their high street banking businesses from their "casino" investment banking arms. Other commissions in France and the EU also recommended ring-fencing. Nevertheless, in January 2013, the Basel Committee postponed the application of one of its principal measures, the liquidity coverage ratio (LCR) regulation, requiring banks to constitute reserves capable of meeting a crisis for thirty days. The measure was to have applied from 2015, but it has been postponed until 2019. The banks may still include toxic products in the LCR. The EC retreated from its plan to protect deposit-banking activities from the undesirable effects that may arise from highly speculative and risky trading activities.

There seems to be no sign that regulators are likely to grasp the nettle of dealing with the banks in such a way that they will be compelled to protect the deposits of ordinary people and finance socially useful production. Banking (the service that should protect savings and supply loans for social uses such as productive development) is too important to be left in the hands of a small number of private bankers who, by definition seek only to maximise their profits. ■

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HNB
Your Partner in Progress

By
Dr. Kevin & Dr. Jackie Freiberg

Perspective

Lead Like a Sherpa: Inspire Your Team to the Summit

If you believe that an organization's success is as much the will of the people as it is the will of the leader then it is critical that we as leaders do whatever it takes to inspire success in others.

Let us remind you of the devastating statistics that plague most businesses today. When you look at the data on employee engagement, satisfaction, loyalty and commitment, it's shocking! The majority of people today feel stuck, stalled, bored, frustrated and some are even actively disengaged when they come to work. Bottom line: there are far too many Dead People Working™ today. DPW are physically present but psychologically, emotionally and intellectually checked-out at work. Funny? Perhaps. Problem, YES! Dead People Working™ will not provide our companies with the kind of intellectual and emotional capital that we need to get ahead and stay ahead. It is time to think and act like a Sherpa.

Let us share some powerful lessons learned from the skills and guts of the Sherpas who guide teams to summit Mount Everest. While preparing for a program for Intel, we met Dave Arnett, a Director at Intel, who summitted Mount Everest on May 21, 2007. Less than three thousand people have been able to summit Everest and Dave is one of them. Last year seven people died trying and Dave knew four of them. It is a daunting journey even for the bravest of the brave! Dave humbly noted that his success in summiting Everest had everything to do with the support he gained from his family, his team and the gifted Sherpas.

Family - It's hard to imagine saying yes to an adventure that could leave you widowed and all alone to raise two young daughters, yet Dave had unconditional support from this family. Dave's wife and children were fully supportive of this crazy journey. They were with him in spirit and prayer every step of the way! Is your family fully supportive of your journey? Are they willing to give financially, emotionally, and unselfishly so you can do whatever it takes to achieve a challenging professional goal, a dream or even a personal passion? Maybe you're not trying to summit Everest, but what are you trying to summit? A new project, a career transition, a personal health or wellness goal? Part of our ability to accomplish big things is to know we have the unconditional love and support of our family and friends at home. Your team at home must be your biggest fans, allies and supporters.

Team - You cannot climb or summit Everest on your own–it takes a team. Summiting Everest is about knowing and trusting members of your team to be there whenever and wherever you need them. Do you know and trust your team inside and out? Do you know who you can count on in a pinch? Do you know who provides intellectual support when the going gets tough, and who provides emotional support when things get frustrating? Who is willing and capable of doing whatever it takes under stress and extreme pressure? Is your team worthy of your trust? Are you worthy of their trust?

Sherpa - Dave says the Sherpas are without a doubt tactical experts and athletic wonders. However, after seeing the Sherpas in action, Dave thinks what really makes them great is their ability to truly understand the dynamics of the team. Sherpas have to be gutsy! There are times when a Sherpa has to make a tough call and tell a climber that they are a liability to the team, and that if they continue the team could die. Are you a liability to your team, or do you know someone who is? Do you have the guts to act like a Sherpa and call out the liabilities in your team, your department, and your organization? Dead People Working™ are liabilities to themselves and everyone around them. If you are a DPW or know of one, be a Sherpa, remind your team of the importance of team. Every summit, every program, every project, every new goal must be embraced by everyone! An organization's success is as much the will of the people as it is the will of the leader. If people choose to not engage, and become a liability, everyone suffers. Is it time to invite people to step up and be players or stop the climb?

Dr. Kevin and Dr. Jackie Freiberg are corporate trainers and owners of San Diego Consulting Group, Inc, a consulting firm. They are co-authors of the bestseller, "NUTS! Southwest Airlines' Crazy Recipe for Business and Personal Success" and three other books.

The 2020 *Chartered Accountant*

The brand new syllabus launched by CA Sri Lanka aims to produce the Chartered Accountant of the future, with a better, more rounded set of skills that enable them to play a leadership role in the corporate sector

Advantage

The new syllabus aims to create more complete finance professionals armed with the skills and confidence to become key players in the leadership team of any business or organisation.

It was prepared after thorough discussions with the corporate sector where Chartered Accountants work and took into consideration feedback received during these deliberations. These included input from business leaders including chairmen, CEOs, and other managerial level professionals such as HR managers, as well as talks with lecturers and current students and student body representatives.

The new curriculum development was preceded by a comprehensive desk analysis that included a benchmarking exercise of CA Sri Lanka's existing curriculum with other internationally accepted Chartered Accountancy qualifications, and an extensive review of the International Education Standards published by IFAC.

This was in order to ensure compliance with international norms in developing the new curriculum.

"This new curriculum meets with all the required International Standards," declared Arjuna Herath, the new president of CA Sri Lanka.

"We believe it will meet the aspirations of all our stakeholders which include our students, their employers and industry and commerce at large as we have gone through an extensive consultation process locally as well as internationally.

"This new curriculum will ensure that the 2020 chartered accountant becomes a true partner in business and will create value, enable value, preserve value and report value. This we believe will ensure that the CA qualification will be the most sought-after qualification for a business leader."

Herath said Sri Lanka's accountancy profession has been very progressive and stayed very current and relevant in a fast-changing, complex world.

"The first set of Chartered Accountants under this new syllabus will qualify before 2020, so we say this syllabus will produce the 2020 Chartered Accountants," Herath explained in an interview.

"This syllabus has been prepared after lot of consultation and we believe it will realise our vision of Chartered Accountants being true business partners. We want to be recognised as a significant catalyst in the country's development." The detailed curriculum development planning done by the Institute revealed a desire among stakeholders for Chartered Accountants to be "Financial Professionals" rather than being "just Accountants".

This requires mastery in their own domain as well as being multidisciplinary with very good business acumen like the functional skills needed in performing core competencies expected by many industries where they are employed.

In addition they also have to complement the core competencies with 'soft skills' that companies are yearning for in today's service-dominated economies along with the experience and exposure and right attitudes required for leadership.

"The Chartered Accountant needs to have industry knowledge and needs to be a business partner where work is no longer 'back office' as in the past," was how a stakeholder described the attributes required of a CA during the consultation process.

The new syllabus that students will start following in 2015 is organised into three 'pillars' aimed at giving them a more complete education and also done at three different levels (Executive, Business and Corporate), giving students increasing knowledge and skills as they cover the curriculum.

The 'Knowledge Pillar' covers the knowledge transformation - from an entrant to a leader - in core competencies, the 'Skills Pillar' aims to transform an entrant to be assertive via effective personal, interpersonal, and organizational skills leading towards a partner most sought after by businesses, and the 'Personal Pillar' will provide the grooming required for a Chartered Accountant to emerge with the right attitude and work ethic.

The core pillar of the CA qualification, the 'Knowledge Pillar', is further subdivided in to five sub-pillars. Of these, the first two sub-knowledge pillars, known as Financial Accounting and Reporting and Management Accounting and Finance, are seen as the pivotal roles of a CA. The second two, Tax and Law and Assurance and Ethics, offer a distinct advantage to CAs over other accounting or non-accounting professionals, and the last sub-knowledge pillar, called Management and Contemporary, is expected to broaden the horizons of the CA in making them partners in businesses in creating value to their organizations.

The Financial Accounting and Reporting Pillar is seen as the primary core competency of a CA. At the Executive Level, the syllabus provides students a thorough understanding of accounting principles and how these relate to a single entity. This includes the legal framework for accounting, the types of records maintained and the impact of information technology on these processes.

At the Business Level, students are expected to apply the concepts in accounting to different types of organisations and have a reasonable knowledge of how the financial reporting standards impact the preparation and presentation of financial statements.

At the Corporate Level, students are required to achieve comprehensive knowledge on accounting and financial reporting, build on the analytical skills acquired at the business level, developing advisory capacity on financial reporting, impact of accounting standards, and various accounting options and their implications to the management. ■

MANIL JAYESINGHE, CHAIRMAN OF THE EDUCATION, CURRICULUM REVIEW & DEVELOPMENT COMMITTEE

New curriculum for competent, confident CAs

The Institute of Chartered Accountants of Sri Lanka is introducing a revolutionary new curriculum in 2015, aimed at accountants obtaining their charter from 2020 onwards. This new curriculum is intended to meet the required international standards and to fulfil the aspirations of stakeholders, including students and employers, through an extensive consultation process. It is designed to ensure that post-2020 chartered accountants will create, enable, preserve and report value, but go beyond soundness of financial accounting to become true partners in business. It aims to ensure that the most sought-after criterion for a business leader will be the CA qualification.

In this interview, Manil Jayesinghe, Chairman of the Education, Curriculum Review & Development Committee explains the implications of the new curriculum. Jayesinghe is a partner at Ernst & Young Sri Lanka, the local member of the London-based multinational professional services firm EY Global, one of the 'Big Four' accounting firms.

BY VINOD MOONESINGHE

What has, hitherto, been the part played by the ICASL in education?
In the educational arena, the Institute plays a critical role in producing financial professionals, chartered accountants who are capable of helping businesses in their growth. The institute itself has something like 35-40,000 students registered to study according to its curriculum. This statistic alone demonstrates that the Institute is a critical player in the field of education.

How has the role played by chartered accountants changed over the past few years?
In the past the role of chartered accountants was to perform two critical functions. The first was the audit function, where they gave capital markets the element of confidence necessary for them to function smoothly, a form of public assurance. Secondly, we have our members who are in commercial organisations, where they play many different roles. As you know many of our members have aspired to become chief executive officers, chairmen of boards; and if you take a sample of the top of the corporate ladder, many of them will be our members. I think that being an accountant helps them ultimately to achieve the top post, because they have the necessary skills and competence to get where they want to go.

Perception-wise there is some change because, historically, we have been considered to be more back office, bean counters. Our role is changing from custodian of financials to becoming part of management, from ensuring financial soundness to being part of the business team.

Why was there a need for a new curriculum?
The Institute reviews its curriculum every 5 years or so and, if necessary, revises it in line with market expectations. It being up for revision, the Institute formed a task force to look into it, which decided to do from zero-base, ignoring what had previously been done. We went to the market to ask what chartered accountants were expected to do and whether those expectations were being met and, if not, where they were failing. We had sessions with various stakeholders: company directors, CEOs, students, education providers - the whole round, locally as well as internationally - and we took on board their comments.

15

Number of modules, down from

19

35-40,000

Usual number of students registered

They said that our CAs were very good at financial reporting and reconciliation, that these core competences should be retained, and that the CA qualification provided flexibility. The feedback was that we did need to focus on and improve some of the areas in which we were lacking. For example we were not so strong in risk management and HR marketing. A significant area of CA deficiency was lack of focus on how businesses made money, their inability to integrate their knowledge of finance into the business. We are considered more as bean counters; more back office custodians of financials, but not, seriously, part of the management team. Our integration into business has to happen more smoothly.

Another comment was that we are too historical data-driven, but that we are not necessarily looking at the current environment and that we don't relate what we do to what will happen in future. As a result, accountants in commerce are getting cornered, being brought in after the fact. Businesses enter into transactions but only get the accountants to do the reporting part. Accountants play a key role in the organisation, and they should get involved from day one, not at the end of the year. So we are trying to equip our members with the necessary tools to get involved from day one throughout the value chain, not just at the end.

One of the key findings which emerged (not specific to CAs, but to accountants and finance professionals in general) was that though they had technical knowledge, they were unable to articulate it, didn't have confidence to communicate and integrate it into the business. We hope that we have addressed this issue in the new syllabus and that we will, in future, produce CAs who are both competent and confident.

In developing the curriculum, we took these criticisms on board; we looked at international education standards, at some of the things our peer groups were doing; and we brainstormed and we came up with a curriculum which we believe will form the future CA.

How does the new curriculum differ from the previous one?
We have tried to focus on outcomes; to start with the outcome and work our way backwards to see what was necessary to support that outcome. The Institute decided that we should produce a CA who will be able to part-

ner businesses in achieving its goals through their financial leadership. That is basically what we are trying to produce and we have tried to develop a curriculum which will support that ultimate outcome. We hope that this will give our product the necessary edge.

In order to achieve the requisite outcome, we have structured the syllabus in two dimensions. Horizontally, we have created three levels, an Executive Level, a Business Level and a Corporate Level. It has been structured to be a growth model: Executive to Business to Corporate is like a ladder to reach the ultimate goal, which is to be a chartered accountant.

However, we have also structured it in such a way that even students who decide not to go to the next level will have adequate competence to perform at that particular level. At the Executive Level, the student can decide to get out of the system and not necessarily do the Business and Corporate levels. We have tried to give that person the competence and the tools required to perform at that level.

For the second, vertical dimension, we have used a pillar concept. We have three pillars: the knowledge pillar to give you the technical know-how; the skills pillar to develop your personal skills (communications, IT skills) in how to apply that knowledge in various scenarios; and the attitude pillar where this will be brought together through practical training. We believe that these three pillars will ultimately create confident, competent professionals. That is the architecture of the syllabus.

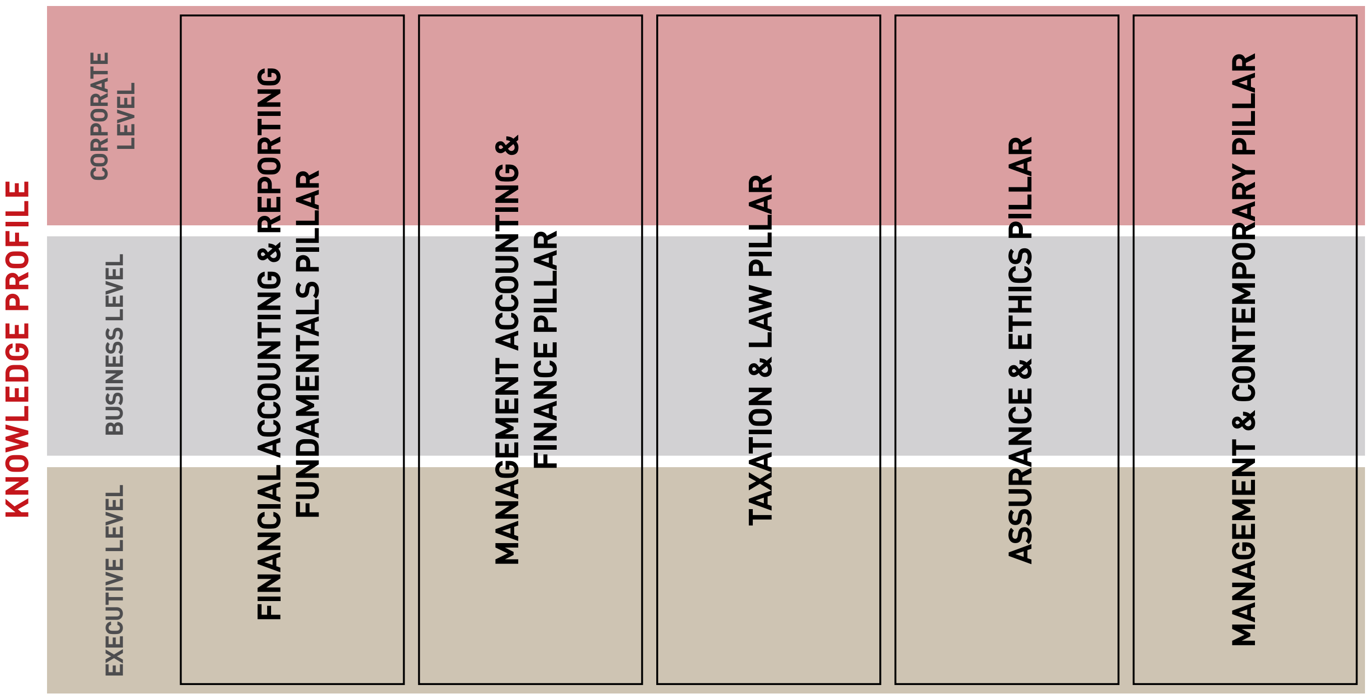
We have five knowledge pillars, in each of which we build knowledge in a certain sphere. For example, in the Financial Accounting and Reporting pillar, you start at the basic level, which is the Module dealing with the Fundamentals of Financial Accounting and Reporting, required to perform at an Executive Level. Then you build on that knowledge and go to the next level, the Business Level and you build on that in turn and go to the Corporate Level.

It is very paradigmatic: everything in the Financial Reporting Pillar is to do with financial reporting. We have used the pillar concept to make sure your knowledge gathering goes in the right direction. These pillars are interlinked. We have created the pillars and we have created the modules which support you if you wish to exit at each level, support you to obtain the necessary baseline knowledge to go to the next level.

So will you have to tweak it again, as you did with the 2010 curriculum in 2012?

After a syllabus is introduced, it is continuously reviewed, because there are changes happening in the market which necessitate us to change accordingly. Nothing is carved

CA: PARTNERING BUSINESSES THROUGH FINANCIAL LEADERSHIP



in stone; we live in a dynamic, continuously changing world, which compels us to review and tweak the system to be more responsive to the market. In preparing a curriculum, we cannot address all groups, so we try to address the 60% most common according to the normal curve of distribution. There will be outliers to whom, if they want to go in those directions, we have provided the necessary building blocks.

However, we have developed this curriculum to be rather more flexible than in the past. Firstly, we give very clear integrated learning outcomes for each module, so for each indicated outcome the student knows what he will ultimately achieve. Secondly, we give very clearly identified action work to tell you how you are going to achieve those knowledge outcomes. That is the basis on which we have developed the syllabus, to inform not only the student, but also the knowledge providers and the assessment system; all three are on the same page.

Do you feel that the changes in the field, which caused the introduction of the new curriculum, may also require retraining of accountants who qualified under the old syllabus?
For members, who have already got through, re-education comes through Continuing Professional Development (CPD), which is a platform using which CAs maintain, improve, broaden and keep current their knowledge and skills, augmenting the personal qualities needed for their professional progress through more advanced learning activities. We will try to get that back to our members through the CPD mechanism, continuously to educate them on areas where the new syllabus focuses, keeping their knowledge up to date and helping them to obtain the necessary additional tools. Beyond that, there is no question of testing them, because they are full members.

What are the transition arrangements?
We have made preparations to facilitate the smooth transition of students, trying to be as fair as possible, so as not to disadvantage them. There are certain subjects which cannot be matched directly because the content has been changed. In those cases we study whether the knowledge they have already obtained is adequate in the context of the new curriculum and, if so we give them exemptions.

2020

Year in which accountants will obtain their charter under the new syllabus

'The curriculum has been developed taking into consideration market requirements and the need to develop a chartered accountant who is competent in knowledge, competent in applying that knowledge and confident in transmitting that knowledge. That has been our goal. Whether we will achieve it or not we will know in 2020.

Of course, if it is inadequate they will have to do the modules, but they will not be at a disadvantage because, overall they will not be doing more than under the old curriculum. We have reduced the number of modules from 19 to 15. Under the transitional arrangements a student will end up doing 5 or fewer modules, compared to 5 subjects in the past.

How have you addressed the problem in Sri Lanka's education of people who have passed examinations and qualified having to be retrained actually to work?
While it may be true of other professions, I am not sure that it is true of the accounting profession. CAs have acquired the necessary practical knowledge and skills through practical training in our core area, so there is no question of retraining them. One key factor in the professional exam, as opposed to university degrees - knowledge wise you might not find a lot of difference between them - is our practical training. We insist not only on the acquisition of technical knowledge, but on the ability to apply it practically. Before you become a chartered accountant, you are required to get three years of practical training. Practical training is done for us by some 600 participating institutions, with which we have a dialogue and visit regularly to ensure that they are delivering this training; although I am sure that there are areas where we need to improve.

The attitude which requires people to be spoon-fed comes from our primary education system - the first tier of education, 10-12 years of your life, in which your mind-set is driven in that direction. Then we have the professional education tier which takes, say 4 years, in which you can't change that mind-set totally. However, we have tried to address that in the case of people who come into the accounting field, by the way we have structured the new syllabus.

We haven't instilled the confidence into these people adequately, which is what we hope to address with the new curriculum. Today, in order to achieve overall competence, you not only need to have knowledge, but also the skills to deliver that knowledge and the right attitude. The new curriculum provides the additional tools you require for building confidence.

But again, a lot depends on the person. There are different kinds of people: those who will not wait to be spoon-fed, but will take the initiative, find solutions to problems and move forward until they reach the pinnacle of industry; and those who will stop at the first hurdle and stonewall until they are given a solution, who will become bean-counters. Of course, you can't have one and not the other, but in our case I think there will be more people who can think on their feet and tackle problems. Our new curriculum is geared to cultivating enquiring minds, to producing a mindset with the necessary ingredients which can produce and articulate solutions.

How would you respond to the allegation that the chartered accountancy examinations are difficult to pass?

Our objective is to assess whether students have the necessary level of competence. Students equipped with the requisite knowledge and skills should not find examinations a barrier, but others may fail because of insufficient preparation. There has been a disconnect between the knowledge providers, who equip the students with the knowledge, and the examiners, who set the examination which assesses that knowledge; the former accuse the latter of preparing papers which are not answerable. This leads to misconceptions such as the existence of a target number to pass the examination (which has never been a criterion), or the examination being made deliberately difficult.

These misunderstandings arose because we had not articulated the process clearly. The examiner could ask a particular question in a particular way expecting a particular result, but if the student understood it to be different, his answer would, obviously be wrong. We have tried to address this issue through verb outcome, so the examiner knows what he is asking when he uses a particular verb, the student knows what the answer should be when he sees it and the knowledge provider knows what knowledge needs to be given to the student. By being very transparent on this, we expect better-prepared students to take the exam, and better pass rates.

The chartered accountants you produce in 2020 will be around until about 2055. How are you equipping them to face the future, when the pace of change will be so much faster than it is now?

We cannot predict or project that far in anything, but we have taken into consideration what will be required in 2020. These requirements will continue to change, which is why we renew our curriculum every 5 years. Any future changes will be incorporated in the curriculum.

For the members, who have already got their charter, to deal with changes, we have the CPD mechanism, as I mentioned earlier. This is a lifelong process that should be planned considering both current requirements and necessary future skills. Gone are the days when you became a CA and thought you were all-knowing and not needing anything more. That no longer works in today's world, as the knowledge and techniques available are different from 5 years ago. They have to use their base knowledge and continuously upgrade their skill set so that they are able to perform in the current environment. In any profession, whether medical, engineering or finance, this continuous education has to happen. However, unlike other professions, we have a specific requirement that you have to have a certain number of hours of CPD annually.

How have the IFRS affected your curriculum?

It has meant we have to equip our members to be proficient in international financial reporting practice. We also adopted the international standards on auditing. Equipping our members and our students with that knowledge is a challenge, the volume of material, of knowledge that needs to be transferred being high, and much learning needing to be done in a short period of time. But it has to be done because if our members are going to be at the cutting edge, they must know their core functions - financial reporting, auditing, taxation - which they will have to integrate into the business. If they are not expert, what is the value that they bring to the business? However, we have addressed this, the standards have been incorporated and we shall have to wait and see how it pans out.

We have based our curriculum on what is known as learning outcomes and, in the case of standards, we have identified 3 critical outcomes. At the initial level the students need to know the standard, its provisions and principles. At level two we move it up a notch, so the student must be able to apply this standard in practical situations. At level three, at the corporate level we are looking at much greater insights into the standard - knowledge of the different outcomes different situations can create, and ability to advise management how they impact the business. That is the graded level of knowledge. It is the application and the synthesis of knowledge that is changing.

The curriculum has been developed taking into consideration market requirements and the need to develop a chartered accountant who is competent in knowledge, competent in applying that knowledge and confident in transmitting that knowledge. That has been our goal. Whether we will achieve it or not we will know in 2020. ■

ARJUNA HERATH,
NEW PRESIDENT OF
CA SRI LANKA

Portrait

Our aim is to produce leaders in business: *Arjuna Herath*

Arjuna Herath had dreams of becoming a pilot soon after graduating from the University of Colombo with a physical science degree (double maths and physics) or of following his father's footsteps and joining the police. Fate, and paternal objections, decreed otherwise and he ended up at the audit firm Ernst & Young, "without knowing exactly what I really wanted to do" as he puts it, although pursuing another professional qualification was also an option he had contemplated. Initial success in accountancy exams gave Herath a taste for the profession and a desire to get qualified as a Chartered Accountant and become a member of the Institute of Chartered Accountants of Sri Lanka. He actually started learning double-entry book-keeping only when he was 22 years old. Today, as the new President of CA Sri Lanka, Herath says it has been a very interesting journey, full of intellectual stimulation and variety in the work. Accounting, he believes, is an interesting profession to be in. In this interview, Herath outlines his vision as head of the island's largest and standard-setting national accounting body.

BY ROHAN GUNASEKERA

CAREER:

Audit trainee at Ernst & Young (E&Y)

Management trainee at Ceylon Tobacco Company (CTC)

Marketing Development Manager at CTC

Merchant Bank of Sri Lanka - stint in Nepal to set up and run a merchant bank

Director - Corporate Finance, MBSL

Partner, Ernst & Young

AGE:
50

PERSONAL STATUS:
married to Namalie, also a science graduate, who works in advertising as General Manager, Group M - MEC. Three kids (two girls and a boy)

HOBBIES:
walking, jogging and workouts at the gym; playing tennis on weekends; watching TV news and channels like National Geographic; reading (biographies, thought leadership topics, case studies of business transformation)

Looking back on your professional life as a Chartered Accountant, what would you say are the main lessons you've learned?
In the initial part of my career I actually never wanted to work as an accountant or an auditor. So when I left E&Y after account and audit training, I joined Ceylon Tobacco as a management trainee as I wanted to get into management. Actually, that was my first job which was when I was 27 years and people were wondering what I was doing but I feel all this training and skill development was not a waste and laid a good grounding for an accelerated career subsequently.

I believed accountancy and finance is a good base for management and I thought I could be very successful in it. For instance, at Ceylon Tobacco, they realised I was mature enough to take on more responsibility and within six months of my joining as a management trainee they made me acting Area Sales Manager, Colombo South - an important position in the marketing division as Colombo South is one of the bigger markets.

An accounting and finance base adds a lot of value to any corporate role you may perform.

Similarly, the role as Director - Corporate Finance at Merchant Bank of Sri Lanka where I was advising corporate clients and was involved in the restructuring of the bank which at the time went through a very tough period. That was a tremendous experience - trying to turn around a billion-rupee loss-making investment bank and to stabilise it and lay the foundation for recovery was a very interesting experience and one of the biggest learning experiences I've had. That exemplifies the value of finance and accounting.

Just before becoming Director - Corporate Finance, soon after I joined MBSL, one of my first stints was to actually go and set up a merchant bank in Nepal - a 'green-field' project. I did the feasibility study and set it up and ran it for two-and-a-half years with a joint venture partner in Nepal. That was another amazing experience. Again my finance and accounting background gave me that capacity and ability to do that. I believe this foundation you get is tremendous in enabling you to work in any commercial environment.

What were the challenges you faced in the initial part of your career?
The time at Merchant Bank was a challenging period. The capital market was in the doldrums. As Director - Corporate Finance I had to work with clients in the capital markets. That was a time a lot of people left the investment banking industry. I actually stuck on for a little while but realised progress in the capital markets was slow and that was the time I reverted back to the profession at E&Y. It was a career shift - from working in the commercial world I was getting back into practice to be a Partner at E&Y. I believe that career shift has worked well for me and was what enabled me to become the President of the Institute today because had I been in the commercial world I would not have had the time to get involved in the profession and the Institute.

As the new president of the Institute what are your priorities?
The history of the Institute is not very long but we've had an amazing journey, progressed very rapidly to reach the status we have today as the national accounting body and having produced for this country accounting professionals who hold very responsible positions as regulators, Secretaries to ministries, top CEOs and directors of corporate bodies. We are very focused in maintaining this status by ensuring our members stay current and up to date with all new developments and complexities that emerge, through Training and Continuous Professional Development programs we roll-out continuously and intensely. We will ensure a member of the institute can select from a suite of training events, seminars, workshops, round table discussions, and breakfast meetings that take place round the clock throughout the year, whatever is relevant to their personal and job requirements that will equip them to meet with the expectations of the stakeholders and the larger society. We will continuously evolve top class infrastructure, technology, and resources that will enable provision of these in the best possible medium and environment. Additionally we will continuously conduct 'Train the trainer' programs to build a good resource pool and

pull in resources from IFAC, regional accountancy groupings such as CAPA and SAFA, and Professional Accounting bodies with whom we have reciprocal arrangements. This will ensure our members are at the cutting edge in terms of technical knowledge and skills.

The Institute has done a terrific job in building the accounting and financial infrastructure in this country. We're converging with international accounting standards today. We set the accounting and audit standards in this country. We had to do a fairly intense job in getting the new standards accepted by industry and commerce and we have been recognised internationally for that. Today this country is comparable to any of the countries that have good accounting and finance infrastructure. That's been recognised by our members having the ability to work in any country - our members work in over 30 countries.

In fact the IFAC President, during his visit, said that Sri Lankan accountants have international recognition and a place anywhere in the world. That's a tribute to what the Institute has done. With this record we want to reach greater heights and be recognised as the pre-eminent accounting professionals' body in this country, although some might say we've already achieved that. We would like all other accounting professional bodies to join hands with us to make the contribution that the accounting profession can make to society and the country.

In this journey we like to see our members being positioned as true partners in business. Part of our vision is to produce members who are going to be valued and recognised as true partners in business with a leadership role in finance and accounting.

And we have an advocacy role in policy making - the CA Sri Lanka President is an ex-officio member of the Securities & Exchange Commission and the Sri Lanka Accounting & Auditing Standards Monitoring Board and we get invited on to many advisory boards. Through our relationship with government policy makers we play a very effective advocacy role in policy making.

We're also mindful that if the country is to develop, the regions outside Colombo have to develop. We believe today that while infrastructure development has been unprecedented in our history, the human resources availability in these regions is a limitation. A lot of companies today are wondering how they can find people if they go to outstations like Hambantota, Jaffna or the east. It's not only about labour. It's about professionals needing to live and work in these areas. Taking people from Colombo would not be cost-effective for them.

Part of our vision is to produce members who are going to be valued and recognised as true partners in business with a leadership role in finance and accounting.

So we want to take a lead role, where we will educate and train our students and get them to qualify in those regions so they will actually live and work there. Because, if you have students migrating to Colombo, to acquire their professional qualifications, they will never get back to the regions. So our focus is to try and create the infrastructure necessary to achieve this status in the regions. Hopefully, that will allow other professional bodies to do the same and we'll have the necessary infrastructure to create the human resources in those regions.

For our students to be able to be educated in the regions, they need to have the tuition colleges or educational institutes there. We have private sector third parties who educate our students. They must go and set up their colleges in these regions. We will encourage and incentivise them to do that. Secondly, we have to have training organisations that will absorb them - all our students must have mandatory training before they qualify. We will talk to organisations like bank branches, branches of other corporate bodies and some of the SMEs in these regions to absorb our students as trainees in their organisations. We will tell them what training they need to impart to these students and actually 'hand-hold' them to help them to be able to play this role.

Thirdly, we will actually have our examination centres in these regions so that the students will be able to do their exams without coming to Colombo. Today we have only one or two such centres outside Colombo - like in Kandy. If we have enough numbers of students, we aim to have exam centres in any region which requires them. This is the kind of infrastructure we have to create to fulfil our vision of producing Chartered Accountants in the regions themselves.

What's been the response from the corporate sector in the regions?

It has been encouraging because one of the limitations we had was that there must be a Chartered Accountant to supervise these trainees - that's our model. So we agreed these supervisors need not be at branch locations but can be at head office and can guide and supervise students and may be travel or students come to Colombo, as required. We believe we can make that model work.

What support will the Institute give small and medium practices?

Out of our practicing members and member firms, a significant number are sole practitioners and they may face various challenges in carrying out their practice. One of the audit standards in place today requires them to have robust processes in place to ensure required quality standards are maintained- like HR processes, administrative processes, quality processes that can be challenging for these SMPs. For example, one of the quality processes required is that the work of the practicing member must be reviewed by another partner. So if you're a sole practitioner - that consultation and review process cannot be done as you have only yourself in the practice. Also, the HR process has certain mandatory requirements to enable you to recruit and retain people with the necessary capacity, knowledge and skills, and the levels of business they have sometimes makes this a challenging task.

We're looking at trying to resolve these challenges for SMPs. We're looking to see whether we can have third-party, back-office service providers to provide the services these SMPs require. We're also looking at opportunities for consolidation among SMPs, opportunities for twinning arrangements between SMPs and larger firms for audit services.

We're not forcing anyone to merge. When it comes to audit service the need for your work to be reviewed by another person and to do consultations on interpretation issues requires another partner or party. This consolidation can take many forms. Two sole practitioners can get together and form one practice. They can have an arrangement and agree with another practitioner to work together for audit services only, reviewing each other's work.

We're looking to see whether we can have third-party, back-office service providers to provide the services these SMPs require. We're also looking at opportunities for consolidation among SMPs, opportunities for twinning arrangements between SMPs and larger firms for audit services.

What's been the impact of recent changes in financial reporting?

Generally the feedback we're getting is there is information overload because the new standards require a lot of disclosures. There's a lot of information in those financial statements and the issue is whether people have the ability to assimilate it. The investor should be able to understand the annual report and financial statements better. It's about presenting the annual report and financial statements in a manner that helps investors get a better picture of company operations. In this direction we are looking at good practices of Integrated Reporting. The concept here is that the annual report has to be presented in a cohesive manner, telling the complete story about the future and sustainability of the company which is the most important thing for investors or any stakeholder. It's not about the past record - it's whether the company will survive into the future and if so how will it survive and in what form.

How is the Institute's training evolving to keep up with changes in the corporate world?

The feedback we got from the market was that the value addition from a Chartered Accountant can be much more to a corporate body. The feedback was that sometimes the Chartered Accountant plays a passive role. We took that feedback on board. Also, people felt our training requirements for students and our curriculum was very strenuous and difficult. And we felt the environment has also changed significantly and it's changing very rapidly in terms of complexity of the commercial world. So we need to incorporate new subject areas and within subjects also we had to introduce new concepts. These are introduced to members via the training events and seminars we do and to students we incorporate them in the syllabus. We revise our syllabus every five years. This time because of these reasons I mentioned we decided to do a green-field project to completely change the syllabus instead of incremental change. That's the reason for introducing a new, revolutionary syllabus.

How is the Institute involved in promoting professionalism in the Business Process Outsourcing sector?
There's a lot of emphasis by policy makers to try and move this industry to higher levels as they believe this country has potential in this area, particularly because we produce a lot of accountants. Sri Lanka is the second largest market outside UK for CIMA accountants. We produce accountants of good standing and they have the necessary skills and knowledge to serve this industry. We thought we must give a helping hand to this industry because that domain fits in well within our activities. When we say BPO we're looking at a sub-sector which is the FAO - Financing and Accounting Outsourcing. There are some significant operations that Sri Lanka has in this FAO space. We have WNS, which originally supported Aviva but now has many more clients. We have the HSBC global outsourcing centre supporting HSBC operations in the region and we have some big shared service centres of the larger corporates such as John Keells, Aitken Spence, Carsons, Hayleys, Hemas etc.. We firmly believe this sector can grow. There are over 10,000 students who register with us annually to acquire our qualification. We feel a good segment of them can be channelled to this industry which needs some specific skills which the normal accountancy qualification does not impart such as knowledge on ability to process transactions in a manner that is peculiar to the industry and process transformation knowledge. The idea is that some students may directly get a qualification that will suit the industry and go direct to that industry and become professionals of that industry.
This industry now runs with people who have graduated with Chartered Accountancy or CIMA qualifications . But they are hired by these companies and trained to be able to perform a specific service offering that they have. The industry itself has told us they'd prefer this training and skills development to be done by institutes like CA Sri Lanka.
Also, we want to attract larger numbers to the BPO/FAO sector and if we can offer a professional qualification specifically tailored to this industry, we can channel people who will build a career there. The biggest problem facing the BPO/FAO industry now is attrition. Because when someone qualifies as a Chartered Accountant their mindset is to go and work as an accountant in a corporate body, not in a BPO/FAO centre where their role is not that of a typical accountant, as outsourcing centres do work like processing transactions and compiling tax returns. Various functions are outsourced - not only the accountant's role. BPO/FAO work is very lucrative as it is a big industry.

We want to attract larger numbers to the BPO/FAO sector and if we can offer a professional qualification specifically tailored to this industry, we can channel people who will build a career there.

What is the requirement for a separate qualification for the public sector?
There are separate accounting standards for the public sector whose accounting mechanisms are different from the normal commercial sector. There are specific standards issued by the International Accounting Standards Board for the public sector. Similarly, taking these as the base we've issued our own Public Sector Accounting Standards in Sri Lanka and the finance ministry has issued a circular asking government agencies to adopt them. We've issued 10 such standards. And we will keep issuing new standards in line with international public sector accounting standards.

Also, there are rules and regulations in the public sector which govern accounting and financial reporting that the government itself issues. Internationally too if you want to work in the public sector you have to acquire some experience and specialisation in the sector since it has its distinct nature. This necessitated the need for us to look at a separate public sector qualification. That does not mean the public sector qualification will be completely different to the normal Chartered Accountancy qualification. We've done an assessment and we feel if we need to have someone specialised and working in the public sector, additional subject areas have to get covered. The actual difference between the two streams is four subjects. The amount of effort, time and nature of the qualification will be more or less similar. The core accounting subjects remain the same.


IFAC PRESIDENT
WARREN ALLEN

Interview

World facing shortage of accountants - *Warren Allen*

Warren Allen, President of the International Federation of Accountants (IFAC), the apex body of accountants, says the profession is an exciting one, almost 'recession-proof', providing good job security even during times of crisis. Allen became President of IFAC in November 2012 having served as Deputy President for two years. He had been a member of the IFAC Board since 2006 and on its Education Committee (now the International Accounting Education Standards Board) for more than 10 years, including as Chairman from 1998 to 2004. Allen was a partner at Ernst & Young in New Zealand and has also served as president of the New Zealand Institute of Chartered Accountants. In this interview he outlines the challenges and opportunities of the profession.

BY ROHAN GUNASEKERA

Could you describe what role IFAC plays?

What is interesting about IFAC is that it is a membership organization of member bodies such as CA Sri Lanka which plays an important role in IFAC. In some countries like the UK there are about six or seven accounting bodies and they are all members of IFAC. So we represent the global accountancy profession, we speak out on issues and we participate in debates where a global perspective is required. The accountancy profession is probably the only truly global profession, and integrated globally through IFAC. I am sure that my colleagues in the medical, engineering and legal professions are quite envious of the global connections and integration we have in the accountancy profession.

So this enables us to claim that we are a global profession, and we do that through development, adoption and implementation of standards. Accountants all around the world are required to follow international standards for accounting, auditing, education and also for public sector accounting.

It is truly these standards which enable the accounting profession to be highly mobile. If you take CA Sri Lanka, they have members working in over 30 countries in the world. These are chartered accountants educated and trained here in Sri Lanka. Because their education process follows international standards, that qualification is recognized in other countries and they are able to travel and start work immediately in those other countries. And I like to say that one of Sri Lanka's biggest exports is chartered accountants. They are highly sought after around the world for their skills. I had the pleasure of training two or three members from Sri Lanka in my office in Wellington and they were outstanding staff members.

What are the main challenges that IFAC faces right now?

There's three I'd like to speak on and in no particular order. The three of them have equal weighting. First, we have a responsibility as a profession to work to increase government accountability and transparency. One of the real issues that was highlighted in the global sovereign debt crisis was the very poor state of what we call public sector financial management. We as accountants find it really hard to believe that a government does not have a balance sheet or an income statement, that they have no ability to record their assets or value them or worse still, to record their liabilities, contingencies, commitments and value those.

> **What is interesting about IFAC is that it is a membership organization of member bodies such as CA Sri Lanka which plays an important role in IFAC.**

So it was not surprising that we saw a number of countries in Europe and around the world get into severe financial difficulties during the recent crisis as they do not have appropriate systems of accounting. As accountancy professionals who know about appropriate systems, we have a strong responsibility, and it's one of our key challenges to work with governments around the world to improve their systems of financial management and to introduce proper systems of accounting, budgeting, transparency and accountability of their operations.

It is really interesting to note that the top five countries that came out of this crisis with the least amount of debt percentage, all adopt accrual accounting for their government entities. So that is a great testament to the power, if you like, of proper systems of financial management. We also work directly with governments and agencies such as the World Bank, the IMF, the G7 and the G20.

The second key initiative that I would like to introduce to the global profession is corporate reporting. The people that use our financial reports are stopping short of saying that the system is broke but they are saying to us very clearly that it's not fit for purpose. So investors, shareholders and readers of financial statements want more information in today's environment. They seek information on the sustainability of corporate organizations and the corporate entity is not sustainable just by continuing to produce a profit. So Integrated Reporting is an initiative that is dealing with that challenge and the International Integrated Reporting Council issued a frame work for Integrated Reporting last December.

So the challenge for the accountancy profession and IFAC as a global body is to ensure that the integrated framework is understood and adopted and implemented around the world. With Integrated Reporting it brings together not only financial information but non-financial information in an integrated report. It deals with such things as a company's use of natural capitals - so if a company's using minerals or water, what is it doing to ensure the sustainability of these supplies. The reporting deals with how they manage their human capital, the staff resources, how they recruit, develop and retain those resources. It is seeking information on the involvement of corporates in the community - what activities do they undertake within their communities?

There are over 100 companies around the world that are running this as a pilot and there are some very interesting commentaries coming out from them as to the changes this thinking is driving and the way the businesses are run. It's all around sustainability, it's moving away from the sole focus of profit and is taking a much wider view of the operations and performance of the corporations.

So what's interesting about that is that's a market-demanded change. A lot of the work we do as accountants is for regulatory-demanded change, like a new regulation we have to be aware of and make the change to accommodate. But this one, it's the users saying to us. So it is very different and important that we are successful.

And the third one is that there aren't enough of us in the world, not enough accountants in the world to meet the demands which the public are placing on us. When we achieve our objectives in terms of improvement in government transparency and accountability and also Integrated Reporting, those initiatives will require many more accountants around the world. So one of our greatest challenges as a global professional body is to recruit, train and retain more professional accountants. We are on a crusade at the moment, if you like, to recruit and retain the best and brightest to this profession. What's interesting to note is that this profession provides a very high level of job security. If you look at the latest crisis, unfortunately many bankers, many IT people, many marketers - those disciplines which attracted the students during the boom time - many of them unfortunately lost their jobs during the crisis. But there are very few examples of accountants losing their jobs.

A lot of the work we do as accountants is for regulatory-demanded change, like a new regulation we have to be aware of and make the change to accommodate.

So you see accountants maintaining their jobs through economic boom times and economic crises. The sort of work they do may change but they still have their jobs and it's fair to say when you look around the world we're generally a rich profession. We are well remunerated for the work we do. It is a very, very attractive career option for students and on a global, regional and national scale we have a real challenge in increasing the number of accountants so that we can meet the expectations of the public which is increasing all the time.

If the profession is so attractive what is the problem in recruiting people?

The challenge is that it takes between six and eight years to qualify. It is not like if you need many more labourers or unskilled workers you can go out and just hire them. We need to maintain the level of competency of the accountancy profession and the quality of the work they do. Interestingly, if you look at China right now, they need 500,000 additional accountants as we stand here today. It takes many, many years to build that number. So we need to start somewhere. We need to start now and it will take some time for us to get the numbers up to meet the demand. And you've got capacity constraints, constraints within the universities, within the institutes in many countries and their ability to train and assist the competency of professional accountants. We need to find innovative ways of increasing that capacity and removing those constraints.

If you look at the US at the moment, their accountancy schools are full for the first time in many, many years and there is a waiting list to join them because I think young people realize that this is a great profession and that it offers a high level of job security, good remuneration and really interesting and challenging work. Even if you don't make your entire career in the accountancy profession, it is a fantastic educational base for many other activities in society.

How do you see the growth of the profession in the South Asian region?
It is interesting. If you take the South Asian region you have got the whole spectrum. If you take India and Sri Lanka, they have very strong, very active accountancy professional bodies with professionals who are highly regarded and doing a great job in terms of economic growth. If you take Sri Lanka's economic growth over the last 10 years it has been quite outstanding. One of the main reasons for that is because the economy is served by very capable accountancy professionals. But then you go to the other extreme here in the South Asian region in countries such as the Maldives and Bhutan where they don't have an accounting profession at all. We, the global body, are working closely with donor agencies such as the World Bank and the Asian Development Bank to build the accountancy bodies in both these countries.

There are some great examples of the profession being very strong in South Asia and on the other hand of economic growth of countries that don't have an organized and formal accountancy profession held back because of that. And that is why the World Bank is very keen to work with us and have development projects in place to establish and grow the accounting profession because once that's in place they can put money in to development programs in those countries and know that this development money is going to be effectively applied. You need to have the systems of accountability and transparency in existence before you implement development projects.

What are key challenges you see in this region?
One is to ensure that governments in this region adopt proper systems of financial management. In the bigger and stronger economies in the region their governments are working towards accrual accounting and effective methods of accounting while there are many governments that are still on very archaic systems of accounting with very poor record keeping and very limited systems of accountability and transparency. The challenge in this region is for the accountancy professions to work together to convince those governments the way forward for stability and sustainability is proper systems of financial management.

500,000

Number of additional accountants needed by China

It is interesting to see that the public are demanding that. The public around the world are getting fed up with very poor management of their public funds and the riots we saw in Europe and some of the civil unrest in the Arab nations and Brazil recently - a lot of that is targeted at the lack of transparency and accountability in the management of their government affairs. The younger generation in particular is demanding a much higher level of competency in this regard.

One of the main projects implemented recently is adopting IFRS. But this has been criticized in some quarters as a standard too advanced and inappropriate for developing countries with immature markets, where prices are volatile?
Our experience in this is that some of the most avid implementers and adopters of international standards are from the developing world because they see it as absolutely essential. I had an experience late last year at a World Bank conference in Vienna with many of the Balkan states and eastern European states which went through unrest and wars. We were meeting up with many finance ministers and secretaries of finance of those countries and they were incredibly supportive of international standards and particularly IFRS because they see it as the way forward. And the people lending them money for development, whether it be the World Bank or the private sector lenders, are demanding a high level of financial reporting and quality in that reporting. Because there are many, many cases where, without that, the foreign direct investments and lending will not happen.

Let me share with you an example which was given to me in Sri Lanka. Three of the commercial banks in Sri Lanka went to the global market to borrow money this year for the first time. They went to Singapore, Hong Kong and New York. And those banks have been following IFRS and the Central Bank of Sri Lanka has also been following IFRS for over a decade now. And those international lenders were surprised, pleasantly surprised, at the level of compliance of these commercial banks in Sri Lanka, a developing country, their compliance with IFRS and also international standards of auditing. Sri Lankan banks want to play in the international markets and so you have to follow these standards. Even some of your larger companies now will be looking for overseas financing and you will find over the next 10 years that will trickle down to medium-sized companies here in Sri Lanka. So they too will need to have high quality financial information to get that sort of funding.

So if a poor country is serious about economic development, they'll want to follow the international standards, they'll want high quality financial information so that they can participate in development funding and also their banking systems participate in the international markets. There are accounting standards and auditing standards which have been developed specifically for global implementation. And the bodies that developed them do have very good representation from the developing world. If you look at the bodies in which we, IFAC, are involved with, facilitating the development of audit standards, of education standards - they have a strong representation from developing nations. Sri Lanka participates in some of those. They are very much aware of the needs for these standards to be implemented across the globe, not only in the developed world.

One of the concerns raised here is that of fare value measurement as markets here tend to be more volatile than those in the developed countries?

Yes, but that's not an issue you have alone here in Sri Lanka! Around the world markets in smaller economies are volatile. There are plenty of examples now around the world of people dealing with that. We need to be careful we're not putting barriers up just because there's change. This is a world where we have to embrace change. This is an important change. So just because the markets are volatile is no reason not to embrace this change.

They want government spending on education increased to levels close to 6% from its current equivalent of 2% of gross domestic product

What is IFAC's approach to the different needs of the SMEs and SMP's?

It goes without saying SMEs are the engine room of any economy in any country. The real driving force of the economy is SMEs. SMEs are typically serviced by SMPs - Small and Medium Practitioners. So we have a very active SMP committee and it is very interesting to note that the highest area of traffic within the IFAC website is around the SMP committee section of the website. They have been most successful in developing a number of resources that are very helpful to SMPs. One of those items in particular is a guide to practice management. This is a five hundred page guide which tells the SMP the processes and procedures that need to be in place to run a small to medium accountancy practice. This particular guide has been a best seller for IFAC but I hasten to add that it is available to everybody free. We don't really sell it. Many SMP practitioners are not aware of its existence and when we make them aware of it they are absolutely astounded and absolutely thrilled with that resource being made available to them and they find it particularly useful in establishing, developing and enhancing their own practices.

There are many other useful resources and documents and checklists which the SMP committee over the years has worked on and they are available in the SMP committee section of the IFAC website. I was also asked the same question at the SAFA (South Asian Federation of Accountants) meeting yesterday. Somebody asked me what can we do to make sure that the SMP members are more aware of this and I told them tell them these resources exist through your journals, through your internet sites; make sure your SMP members are aware that this wonderful resource is available at the click of a button, at no cost to them and if they download that they will get tremendous benefits for their practices.

Focus On - Technical

Tax implications of IFRS

Two years ago, listed firms switched to reporting their financial performance based entirely on the International Financial Reporting Standards (IFRS). Known as Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards (SLFRS/LKAS), they replaced the Sri Lanka Accounting Standards (SLAS) from January 01, 2012. The standardisation of reporting practices with those prevailing elsewhere facilitates the comparison of the results of listed Sri Lankan firms with their counterparts in the developed countries. It assists international investors in assessing the performance of local companies, by doing away with accounting rules which, being peculiar to Sri Lanka, made the evaluation of actual performance as measured by international norms that much more difficult.

Not the least of the challenges arising from this transition is the looming, important question of how tax liabilities will be calculated under the new standards. In these two interviews with Duminda Hulangamuwa, Partner, Ernst & Young and Head of Tax Services, and Gamini Wijesinghe, Senior Commissioner, International Tax Policy of the Inland Revenue Department, The Abacus presents the views of practitioners and regulators.

DUMINDA HULANGAMUWA, PARTNER, ERNST & YOUNG AND HEAD OF TAX SERVICES

Tax implications of IFRS

Gamini Wijesinghe

Companies have just begun to file their tax returns under the new rules. There are still many issues unresolved, which might mean taxpaying entities might have to prepare a dual set of books - one for IFRS compliance and the other to meet local statutory/ regulatory requirements. IFRS reporting is considered more complex than the previous rules because of the use of judgment which emphasize the substance of a transaction over its legal form. There are also differences in recognition of income between the former regime and IFRS. In this interview Gamini Wijesinghe, Senior Commissioner, International Tax Policy of the Inland Revenue Department, describes how the tax authorities are preparing to implement the new regulations.

BY ROHAN GUNASEKERA

How does the Inland Revenue Department assess challenges thrown up by the introduction of IFRS?

It's a new chapter for the whole world. Earlier financial statements were prepared on the basis of historical cost. The IFRS have changed that to a new fair value-based accounting method under which assets and liabilities are valued based on fair value. That means the whole balance sheet and other financial statements of the business are viewed according to the actual value, which is more or less the same as the market value as at the balance sheet date.

Financial statements prepared under the IFRS reflect the current value of the business.

From a regulator's point of view, we have had to change our mindset. We were used to tax based on historical cost - the basis on which taxes were calculated and assessments were raised. When that's changed to a market-based approach, there are different types of adjustments coming in and the concept of total profit now gets changed. Under the Inland Revenue Act an entity is taxed on historical cost. But now we may have to rethink based on this new scenario.

Is the Inland Revenue Department adequately prepared for making tax assessments under IFRS?

We're still not completely ready but we're getting better equipped and prepared. However, this is in fact a huge issue and no one has yet identified the gravity of the problem of dealing with the changes required under IFRS. There are country-specific issues arising from the adoption of IFRS and other countries have had to change their laws to cope with these issues.

Our country has accepted IFRS and now we have to make adjustments for it and adapt ourselves. We know there are issues in taxation under the IFRS but as implementers we have to make the necessary adjustments and adapt. So we try to change our own mindset and adjust to the new system. And without losing revenue we have to follow the system - we have to protect the country's revenue base.

What are the main difficulties you see?

There are three key areas to consider. Firstly, it's a completely new concept. So we need to train our officers - that's the main challenge. The second is the gap between the existing law and IFRS. Provision has not been provided under the existing law to accept certain adjustments required under IFRS. The issue is, when such adjustments are made, whether or not we can tax them. The present law says all provisions, estimations and all impairments should be neutralized - not be accepted for the purpose of taxation.

If there are areas under IFRS which go against the Inland Revenue Act, those will not be accepted for the purpose of taxation. So we accept IFRS fully but subject to adjustments to be made under the Inland Revenue Act.

For example, take the treatment of bad debts. Under the Act, general provision is not accepted but specific provision is. IFRS refers to specific impairment and general impairment but general impairment is not equal to general provision under the previous regime. It consists of even specific provisions, raising the question as to which can be disallowed and which is to be accepted? Our position is to be neutral on both general and specific impairments and that the entity must recalculate their schedules to show what the specific impairments are and those would be allowed.

Thirdly, in the procedures to be adopted to fill the information gap - there are so many additional schedules we need to call upon to check and clarify the accounts presented to us.

We have had many rounds of talks to assess these issues with private sector stakeholders, the Bankers' Association, CA Sri Lanka, Chamber of Commerce and representatives

Tax implications of IFRS

Duminda Hulangamuwa

The application of new standards has had a manifold impact on chartered accountants in Sri Lanka. The transformation has resulted in bigger annual reports as the amount of information that must be communicated has risen. Even more importantly, the new rules have altered the manner in which revenue, expenditure, assets and liabilities are handled. Duminda Hulangamuwa, Partner, Ernst & Young and Head of Tax Services, gives his take on the issues.

BY VINOD MOONESINGHE

Many companies are still in the early stages of considering what impact the transition will have on financial reporting. How aware are they of the impact it will have on tax reporting?

I think most companies are aware of the impact on tax that the IFRS would have. Not all companies are affected by the IFRS. It only impinges upon certain companies for compliance, what are called 'specified business units' - public quoted companies, insurance companies, banks, companies exceeding a certain threshold in turnover. These companies have a fairly established corporate culture; to advise them, they have auditors belonging to the larger audit firms; they also have chartered accountants working for them. The ICASL has been educating the public through publishing, through seminars and discussions in various fora, so the impact of IFRS is known. The tax impact of IFRS is by and large known; the companies which have to comply are at least aware of it.

How does IFRS impact tax reporting?

The IFRS does not create any new revenue or expense, it does not make you additional profits. From the tax point of view, the only concern is whether the accounting standard will create a new revenue or expenditure which, hitherto was not reported. In my view the IFRS will not create a new avenue of revenue, so there can be no additional tax loss or tax gain.

However, the way in which you report your transactions can be different from what it was in the past. IFRS is a reporting system, the impact of which is in timing. Something, a cost or revenue, which didn't get reported earlier, might be reported now; something to be reported in the next year might be reported in the current year.

So there is a timing issue. Say you have a contract and you earn Rs 100 interest; IFRS won't allow you to record more than that. However, where earlier you would have recorded Rs 25 in each of four years, now you might record 20 in one year, 30 in the next, and so on; so you will be liable to different taxes in different years. Overall, the tax can't be increased but timing can have an impact. IFRS makes it more transparent for tax purposes.

What are the issues arising from the IFRS requirement for fair value accounting for certain transactions?

Fair value accounting requires that you should record your balance sheet assets and transactions at market value. Earlier, companies did not record certain transactions at market value. With fair value accounting, items which were actual incomes that might not have been reported as incomes earlier, for example intercompany interest income, rent income, will now go into the profit and loss, and of course they will get taxed. New benefits are not created, but those that were already there, but hidden, are brought to light. For example, inter-company transactions: some companies gave inter-company loans without charging interest. Some charged below market rent or no rent from subsidiaries. Some gave employee loans at concessionary rates but they didn't record the real cost of those loans.

Such transactions will now be recorded at market value, so some income that didn't get reported earlier will get reported now. Once that kind of thing gets reported, higher tax will have to be paid. For example, an interest-free loan will now be recorded at fair value, with interest added at market value. Now you won't give interest-free loans to a stranger, but to a known person, most likely to an employee. The recipient of such a loan will get an advantage, a benefit. So, the market-value interest will be recorded as income of the recipient.

When an employee receives a concessionary loan, the market-rate interest was not recorded earlier, but it is now.

Tax implications of IFRS

Gamini Wijesinghe

We will completely ignore componentisation under IFRS. Taxable entities can classify separate components separately for reporting purposes under IFRS but when they submit accounts to the Department they must add it back and calculate again

from audit firms. Almost all IFRS tax issues have been sorted out and accepted by all parties. On February 10 we had the final meeting to finalise "the guidelines on tax implications on adoption of IFRS ", which will be issued soon as a Gazette Notification. This Gazette Notification explains the adjustments to be made to profit calculated on IFRS for the purpose of taxation.

Could you describe some of the problem areas?

For example, there are many types of income or expenses coming to the profit and loss account because of price variations, although no transactions take place. So if we value on that price there is an adjustment somewhere in the accounts to increase the other side of the Balance Sheet. The profit goes up and down based on those new adjustments - the issue is whether you are going to tax these gains and losses accounted for under IFRS. Based on existing practice we don't tax notional transactions or estimates. So we have to neutralise it, but the issue is whether all economic activities identified under IFRS can be treated as notional for the purpose of taxation.

Previously, there was no requirement to estimate assets and liabilities annually as they were recognized at historical cost. Now under IFRS those assets and liabilities have to be re-valued as at the Balance Sheet date and differences should be adjusted.

Another example is the concept of componentisation of asset under IFRS. We've decided that depreciation will be allowed without taking into account the componentisation of assets or PPE (Property, Plant and Equipment). Take the example of a hotel. Previously, the hotel building was shown as a building in the Balance Sheet. Under IFRS it can be shown in a different way. That is, different components of the building will be shown separately as their depreciation rates are different. For example, the building structure is a long-term asset and can be depreciated over say, 50 years, and at a lower rate, say 2%. But the life of say, a lift, is shorter. It may need to be changed every 10 years and must therefore have a higher rate of depreciation, say 10-15% over 10 years. Similarly, hotel interiors are refurbished often, so if they are changed say, every five years or so, you can't depreciate at a low rate of 2%; instead it should be 20-25% a year. Previously, it was simply classified as a building and depreciated at a flat rate. Now, if different assets have different lifecycles, they should be treated separately. So under IFRS in the new Balance Sheet there are 3-4 columns. But what treatment do we adopt for tax purposes? Because there's no provision in the Act to depreciate expenses like refurbishment expenses - it merely says buildings.

So how will Inland Revenue resolve that issue?

We will completely ignore componentisation under IFRS. Taxable entities can classify separate components separately for reporting purposes under IFRS but when they submit accounts to the Department they must add it back and calculate again the value of the building and get the depreciation for that asset which we will calculate according to the rates under the Inland Revenue Act.

Another example is an aeroplane. Under the Inland Revenue Act we have a specific depreciation rate for planes. But under IFRS it's not so - there's one category for the hull, another for engines, another for interiors.

Usually, after five or so years, airlines will replace the engines - so that can be separately identified for the purposes of IFRS calculation. But for tax purposes we ask them to reverse it and identify the actual value of the plane and then claim depreciation as before, till there's effect given in the Inland Revenue law. In future there may be some policy changes, but till then we're not in a position to accept componentisation under IFRS.

Also, consider leasing. Previously, the financial lease and operating lease completely depended on the form or legal base. But under IFRS it is based not on the legal form but on the substance. Even if the legal status says it is a financial lease, for purpose of IFRS reporting that should be transferred to operating lease. So then the tax treatment is completely different. But how can we check that type of transaction? For example a single bank will have thousands and thousands of lease agreements. Can all be checked and changed? And if you change it, what happens to tax calculations? What is the continuation of that transaction?

Tax implications of IFRS

Duminda Hulangamuwa

Such employees will be liable to PAYE tax on the difference between the higher rate and the concessionary rate, because it is considered to be a cash benefit. Rents that didn't get recorded are now charged, so there can be an impact on tax. IFRS makes it more transparent for tax purposes.

Fair value has some relationship to transfer pricing, which the Inland Revenue Department introduced this year. IFRS requires you to record that at market value and so does the transfer price regulations of the Inland Revenue.

The banking and financial sector is the one which gets most affected by IFRS, because that is where most transactions are transitioning into fair value. In the case of manufacturing companies, there is not much difference in the way revenues are recorded. The banking sector gets highly affected because incomes must be recorded based on the internal rate of return (IRR), not on the contractual value. Here again the market value applies.

I can give you a classic example: banks and financial institutions have to record balance sheet assets at the market value. They may have fixed assets for sale, or have investment in treasury bills and treasury bonds, or investments in public quoted companies. Now these are re-valued each year. While earlier, they would have gone for revaluation in the balance sheet itself, now they have to be brought into other comprehensive income in the income statement; not to operating profit but below that. A few banks have to revalue their subsidiaries and their big investments and bring the adjusted amount as 'other comprehensive income' into the profit and loss account. The Inland Revenue Department issued a circular saying that you have to pay VAT on the 'other comprehensive income', which is not realised profit. So we had to wage a major fight and eventually this was withdrawn.

The IFRS was adopted with effect from 1st January 2012, but the Department of Inland Revenue's IFRS Committee did not publish its draft guidelines until the middle of 2013. Have these guidelines been adopted and are they appropriate?

It is unfair to berate the Inland Revenue for taking one-and-a-half years to publish, because in my view it was under no compulsion to produce guidelines, since the financial standards are instituted by the ICASL. I don't think there is anywhere in the world where the Inland Revenue gives its own interpretation of IFRS and publishes it in the Gazette. In Sri Lanka the Inland Revenue has accepted IFRS accounts, but have said that where there is revenue erosion, they will have to step in and give guidelines.

It took some time even for the industry to understand and implement IFRS, so you cannot expect the Inland Revenue Department to respond overnight; it cannot issue guidelines without observing the practical reality of the IFRS. In fact, no income tax returns were finalised under IFRS until last year - 2012-13 was the first year in which accounts were filed finalised under IFRS. Now they have prepared guidelines, based on that experience and on the various submissions made by trade bodies, chambers, and institutions.

The Department had sessions with the private sector, seminars, interactions to discuss IFRS - they summoned practitioners for consultation and took a whole day going through the standards one by one, asking for their views and making adjustments wherever there were proposals. They could have gone ahead on their own, but they consulted us. I took part in all the deliberations of the ICASL with the Inland Revenue, so I know that they were very accommodating and magnanimous, and have gone through a laborious process to make most things clear.

These are not mere guidelines, but are being published in the Gazette, so when using accounting terminology you have to be very careful about the words that you use. They will most likely be gazetted by March or April. I should have preferred it if they didn't gazette it, but kept it as a guideline initially so they could test it for a year or two and change it as required.

Is Sri Lanka being one of the few countries where the standards are actually laid down legally, the reason for bringing out the guidelines as a Gazette notification?

It is partly because in Sri Lanka accounting standards are published under the authority of the ICASL by Act of Parliament, but more than this, for consistency. If it is left as a guideline,

The banking and financial sector is the one which gets most affected by IFRS, because that is where most transactions are transitioning into fair value.

Tax implications of IFRS

Gamini Wijesinghe

That's why we say we don't accept changing form to substance. For taxation purposes, form is the accepted principle, not the substance.

These changes mean a lot more work for both taxpayers and the revenue authorities. The year of assessment 2012/2013 was the first year of assessment that the tax returns with IFRS-based financial statements were to be submitted. Therefore tax returns with IFRS based accounts started coming only around November 2013 and we have just begun scrutinizing them.

Another issue is that many corporate employees are getting many benefits without being recorded, such as institutions giving loans at concessionary rates to their employees. The new IFRS rules say they all must be recorded.

Will the new standards result in changes to taxable income?

The position taken is that no additional tax must arise due to the guidelines. We try to avoid having any additional taxes arising from IFRS based on changes in the legal form. Still, IFRS themselves can create additional taxes.

For instance, earlier what we recorded was only transactions. But there may be so many activities which may not have been recorded as transactions previously but giving so many economic benefits, which now have to be recorded under IFRS. So when you record them the consequence is a change in the tax position. For example, intercompany, group company and related-party activities have taken place without transactions being recorded. Now under IFRS all entities are bound to record such activities by considering their economic benefit. That means the tax liability could increase. The main difficulty we previously had was that not all transactions between related parties were recorded. But now, disclosures under IFRS are a big help to keep track and sort them out.

Another issue is that many corporate employees are getting many benefits without being recorded, such as institutions giving loans at concessionary rates to their employees. The new IFRS rules say they all must be recorded. The benefit on free or concession rate of interest shall be taxed. For example, if the usual interest rate is 10% but if a bank charges its employees only 5% on staff loans, now there's a need to record the balance 5% too, as there is economic benefit to the tax payer.

Then the question is when a company gives a non-cash benefit to employees, can it be included in PAYE tax calculations? Previously this issue did not arise as they were not recorded. Now under IFRS the companies themselves must report the economic benefit they have foregone. For the purposes of taxation this is an economic benefit for the employee. So can you remove that from calculation of PAYE tax? I don't know whether or not the employee will have to pay more tax but that liability will arise. We are not in a position to ignore it under the current Act.

Is fair value of property proving to be challenging?

Yes. Fair value can change almost on a daily basis. Valuation is the main problem. For example, an identical property can have different prices at different locations, say between Colombo and Polonnaruwa, and the degree of changes in valuation can also differ, depending on, among other things, economic development in that particular area. The actual economic value can increase or price may go up owing to undisclosed developments by the property owner itself, say if a land is cleared and a wall built. So before accepting any change in the valuation we have to check. So we have introduced guidelines that require tax payers to provide schedules on such valuation changes and provide a Valuer's report. Secondly is the issue of valuation - who is going to value it? Do we have enough valuers to do the job?

Tax implications of IFRS

Duminda Hulangamuwa

then it is very loose and people can have different interpretations and there won't be consistency in application - people in the private sector may try to twist the Inland Revenue tax regulations to their advantage.

Some banks said they would not adopt the IFRS 'first time adjustments' but, on the basis that it is not gazetted, would do what they did earlier. Here, gazetting is called for.

'Collective impairment', which means provision for bad debts, is a slightly overused term in the IFRS accounting terminology. Earlier, you looked at each individual performance and made provisions based on the Central Bank's regulations on provision to be made, if the debt is over 3 months or over 6 months. Now IFRS doesn't consider any of those regulatory provisions, but goes on the quality of the portfolio as a whole: they use certain statistics and work out what the impairment for this year should be taking into account- the recovery, and the performance of the portfolio in the past. So, while you might find one or two performing well in that whole population of people against whom you are making provision, they all get provision because of the formula.

Now the Inland Revenue has said they will allow deductions for collective impairment, but only allow it after going through each case to see whether these are specific bad debts under the law. So the banks were not in favour of it. In my view, this is a timing issue, again, which will get adjusted with each passing year, so it is not a big deal. But some banks said they would go on the old basis. If they make it a Gazette notification instead of publishing just a guideline, they would have to fall in line. There would be compulsion to comply, hence consistency.

In some quarters it has been recommended that there be a different set of accounts for tax purposes. Will this be necessary?

Some people have proposed this but it will be complicated, it will not work, apart from companies having two sets of books leading to evasion. Our Act defines profit to mean after deducting costs as per the law, but nowhere in the world, that follows the income tax model that we follow, as in India, Singapore, or even in the UK, is it defined how profit is arrived at. The presumption is that measurement of profit is derived under commercial (used in the broadest sense) accounting principles. IFRS, SL accounting standards, US GAAP, etc, are all commercial accounting techniques used to measure profit which is left for the accountants to decide.

When you prepare the tax return you have to do what is termed tax computation in order to determine statutory income. Accounting profit does not become statutory income in 100% of the cases, because the income tax laws say that there are certain expenses which are not deductible for income tax, certain expenses which are capital for accounts are revenue for tax purposes, and vice versa. For example, advertising and travel are not allowed; capital allowance ratio you might have depreciation of 10% where income tax law says 20%. So you have to make these adjustments to a tax return in order to determine your taxable profit.

Even today, there are two sets of accounts up to a certain point. But if you say the IFRS has to be used for tax accounting, that you need two separate sets of accounts that means you have to go beyond mere adjustments. Once you have two sets of accounts, then you get into the whole ballgame of having to go to the fundamentals of a particular income and expense and measure profit. That is not going to be easy - it is an impossible calculation in my view, you have to question the whole fundamental of what profit measurement is.

The banks, for example will, in that case, have a computer system to record profits separately for IFRS and for tax. As each bank has at least 100,000 customers, it is not practical if they go on an IRR method and go on the legal form of contract.

The initial problems with IFRS may have been caused by lack of understanding, lack of knowledge, but now that IFRS has been accepted broadly, of course, it is not really an issue. One or two odd situations which we didn't anticipate can crop up, like the 'other comprehensive income' issue. In the practical implementation you might find situations beyond your capacity, where you are liable. However, you can argue these with the Inland Revenue. I must say in fairness to the IR they accepted our arguments and like us they are also learning. There will be situations coming up but we can resolve them. ■

Once you have two sets of accounts, then you get into the whole ballgame of having to go to the fundamentals of a particular income and expense and measure profit.

Update

Growing demand for chartered accountancy studies

12,000
Number of students registered with CA Sri Lanka in 2013

44,000
Active student base

CA Sri Lanka maintains its position as one of the largest tertiary education providers in the country with an unprecedented number of new students - over 12,000 - getting registered in 2013.

With these new student registrations, CA Sri Lanka has secured a phenomenal growth in its active student base which has now reached over 44,000 students following the Institute's chartered accountancy programme.

CA Sri Lanka's President Arjuna Herath commenting on the impressive registrations said that chartered accountants today played a pivotal role across both the public and private sectors. "Therefore, chartered accountants are always in demand both here and abroad, and the qualification is attracting large numbers of students."

Herath emphasized that consistently increasing registrations every year was testament to the recognition of the CA Sri Lanka qualification in Sri Lanka and overseas as well as the increasing demand for the profession and its professionals.

"The Institute revises its syllabus regularly in its efforts to keep abreast with changing global needs and offer students the best and most updated qualification. Accountancy is a truly global profession and CA Sri Lanka ensures it empowers and equips the chartered accountants with required professional competence at a very early stage, while ensuring they possess an internationally recognized qualification, knowledge and skill to be a key player and drivers of any business," Herath added.

CA Sri Lanka Chief Executive Officer Aruna Alwis emphasized that the globally recognized qualification by CA Sri Lanka is one of the most affordable programmes in the country, which is complemented with unlimited accessibility to students from Colombo and outside Colombo.

"The Institute has established fully equipped information centres across the country covering Kandy, Matara, Anuradhapura, Kurunegala, Ratnapura, Jaffna and Kalmunai, in its drive to encourage students from rural areas to join and make a career in accountancy."

He noted that students in the outstations don't have to come to Colombo to follow the CA programme as leading institutes across Sri Lanka offer the CA Sri Lanka foundation programme.

"No longer is the globally sought after professionals tag only limited to students from urban areas, and CA Sri Lanka takes pride in taking this important profession to the most rural of areas in Sri Lanka," Alwis added.

Finance professionals as catalysts in development

CA Sri Lanka and its members have played a key role in laying the foundation for a sound accounting and financial infrastructure and can be catalysts in the country's development and growth, said Arjuna Herath, the new President of the Institute of Chartered Accountants of Sri Lanka.

"CA Sri Lanka is committed to proactively play its role to bring about a transformation in the private and public sectors and the entire society at large," he declared in his inaugural address at the 22nd President's Induction ceremony on January 21, 2014 held at Cinnamon Grand Colombo.

"We are determined to effectively partner all stakeholders to achieve this."

Herath said the financial and accounting framework and infrastructure in place in this country is "best in class" providing the platform to effectively interact and integrate with the rest of the world in terms of trade and investment.

"Our achievements have inspired the international community and we have gained much recognition amongst them."

The Institute today leads the Confederation of Asia Pacific Accountants as its President and in the South Asian Federation of Accountants as its Vice President, providing the opportunity for Sri Lanka to lead the accounting and finance professionals in the Asia Pacific region.

Herath also said CA Sri Lanka has worked to reduce the burden on small business imposed by new accounting standards.

"We have ensured that the financial reporting burden on smaller and non-listed entities will be limited by introducing a separate accounting standard for the SME sector."

The Institute will soon introduce an accounting standard for the micro enterprises.

This is to ensure that the smallest of the smaller entities too would be able to effectively participate in the financial reporting process and reap the benefit of accounting standards without much burden and hassle, he added.

"To ensure effective participation of these sectors in accurate financial reporting we will continue to build capacity within the SME sector and Small and Medium Practices to cope with the requirements."

Financial auditors also play an important role in serving the public interest, Herath said.

"The confidence in the audit profession is fundamental to instil the confidence in the credibility of financial reporting," Herath said. "The trend clearly indicates that the audit environment is getting more complex by the day."

One of CA Sri Lanka's primary focus areas would be in enhancing the quality of audits. The independent Audit Quality Assurance Board which began its reviews recently will ensure continuous maintenance of international audit standards and improvements in audit quality by practicing firms.

Furthermore, the Institute will continue to examine objectively the relevance of audit and the value it provides through an open and robust dialogue with industry and commerce, investors and other capital market participants, Herath said.

"We are considering the inclusion of an 'auditor commentary' in the auditor's report as opposed to the standard opinion that is currently provided which possibly is not read by anyone" he said.

The auditor commentary should require auditors to highlight matters that, in the auditor's judgment, are likely to be most important to users' understanding of the financial statements and draw attention to management's disclosures on these matters.

CA Sri Lanka is committed to proactively play its role to bring about a transformation in the private and public sectors and the entire society at large

Update

Cyber-crime fighters get qualified

The Institute of Chartered Accountants of Sri Lanka recently awarded certificates to students who successfully completed the Diploma in Information System Security Control and Audit (DISSCA).

The certificate awards, which come amidst increasing cyber-crime threats, aim to enhance the IT skills of professionals, both from accounting and non-accounting sectors.

The DISSCA programme was launched in 2003 in collaboration with the Institute of Chartered Accountants of India, and since its launch CA Sri Lanka has passed out over 20 batches who are well versed in information system security control.

Addressing the certificate awards ceremony, former CA Sri Lanka president Sujeewa Rajapakse noted that there is a constantly increasing demand for IT professionals in Sri Lanka and abroad and professionals who focus on information system security enjoy higher demand.

"No matter what professions we hail from, we all need the knowledge of information technology to be successful in our chosen fields," he added.

Chief Executive Officer of CA Sri Lanka Aruna Alwis said that the main objective of the programme was to ensure professionals from the accounting fields were also well versed in the field of information technology.

Many firms yet to join Corporate Governance initiative

CA Sri Lanka has produced over 5400 Chartered Accountants

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) together with the Securities and Exchange Commission (SEC) launched the revised Code of Best Practice on Corporate Governance at a ceremony held in Colombo recently.

Sujeewa Rajapakse, CA Sri Lanka's then-President, noted that while most of the listed companies in Sri Lanka are following this code, there were still a sizeable amount of companies who are yet to join in this important initiative which promotes corporate fairness, transparency and accountability.

"At a time when we are inviting foreign investments to the country, Sri Lankan companies must seriously take action to implement the Corporate Governance Code, as it reflects well on an organization as well as on the country. Therefore, I believe the revision of the code is a timely effort to ensure that the corporate governance principles remain relevant and in line with international best practices."

"Corporate Governance is a dynamic force that keeps evolving. Therefore, taking into account the changes taking place in other parts of the world, a special committee was appointed in 2011 to review and revise the Code of Best Practice on Corporate Governance which was issued in 2008. The latest publication is a result of the endeavors of this committee which was co-chaired by Mr. Asite Talwatte and Mr. Sujeewa Mudalige, who are both past presidents of our Institute" he said.

SEC Chairman Dr. Nalaka Godahewa said companies that are governed according to these standards can support economic growth by attracting capital efficiently and effectively. "Good corporate governance plays a critical role in ensuring not only corporate success but also promoting economic growth" he said.

Jaffna youth keen on becoming chartered accountants

CA Sri Lanka and the Department of Accounting of the University of Jaffna entered into a Memorandum of Understanding (MoU) to develop and strengthen the accounting education and the profession across Sri Lanka.

The MoU, signed between then President of CA Sri Lanka Sujeewa Rajapakse and Vice Chancellor of the University of Jaffna V. Arasaratnam will permit the institute and the university to share resources and knowledge.

Rakapakse said the MoU will help strengthen the relationship between the academic and professional institutions by sharing resources, knowledge and most importantly enhancing the accountancy knowledge, which will in turn help produce fully fledged professionals to help steer Sri Lanka.

He noted that as the national body of accountants, CA Sri Lanka believed it was its responsibility to propagate the importance of possessing a recognized qualification to Sri Lankan youth.

"Therefore, over the years, equal attention has been given to Jaffna and the Northern Province in helping produce qualified accountants both to Sri Lanka and the world, and I am delighted to disclose that since the end of the war, we have seen a tremendous increase in the number of students who have registered for our programme from the North," Rajapakse said.

CA Sri Lanka will offer scholarships for the university's undergraduates to follow the CA Sri Lanka programme and sponsor a special award for the most outstanding student of financial accounting from the university apart from a range of exemptions for students to follow the CA Sri Lanka programme.

THE AGREEMENT WILL ALSO ALLOW:

- Lecturers of the university to participate in seminars, workshops and conferences conducted by CA Sri Lanka,
- Joint research relating to accounting topics,
- Joint revision of the curriculum of the course units and introduction of changes as and when appropriate
- CA Sri Lanka to assist undergraduates of the university to obtain practical training in business organizations, audit firms and state corporations

Webinars improve access for students

The Institute of Chartered Accountants of Sri Lanka, in yet another groundbreaking initiative, introduced the concept of webinars to thousands of Strategic Level students for the first time in the institute's 54-year-old history.

The Institute conducted a series of webinars focusing on how students can improve and enjoy greater success at CA Sri Lanka examinations which was webcasted live on the CA Sri Lanka website giving access to students both in Colombo and rural areas to take part in the sessions in the convenience of their homes.

The webinars conducted for the benefit of students following CA Sri Lanka's globally recognized Chartered Accountancy qualification, focused on three strategic level subjects; Advanced Audit & Assurance, Strategic Financial Management and Business Strategy & Knowledge Management.

The webinar sessions were also an important platform to help develop the competency levels of students while also helping them improve their technical knowledge to perform better at exams.

Update

Deal with IPM to develop management skills

The Institute of Chartered Accountants of Sri Lanka recently signed a Memorandum of Understanding (MoU) with the Institute of Personnel Management Sri Lanka (IPM Sri Lanka) to offer a joint finance course for non-finance executives.

The agreement also paves the way for both institutes to exchange their professional knowledge to enhance the quality of work between professionals working in the fields of human resources and finance.

Apart from the finance course offered for non-finance executives, the agreement also allows IPM Sri Lanka to prepare a human resource course for chartered accountants in Sri Lanka, who aim to further their knowledge beyond accounting and financing.

The course offered by CA Sri Lanka will be a four-month long course titled 'Finance for Non-Finance Professionals', while the course offered by IPM Sri Lanka will also be a four-month long course titled 'HR for Non-HR professionals."

CA Sri Lanka is the national body of accountants apart from being one of the largest professional organisations in the country with a history dating back to 54 years, providing leadership and insight to the accountancy and finance profession in Sri Lanka as well as globally.

The Institute of Personnel Management Sri Lanka (IPM), founded in 1959, is a national professional body incorporated by an Act of Parliament No. 24 of 1976 to offer qualifications in the field of human resource management. The institute is affiliated to the Asia Pacific Federation of Human Resource Management and the World Federation of Personnel Management Associations.

Islamic Finance among issues discussed at AOSSG meet in Colombo

Islamic Finance was one of the topics discussed at the Asian-Oceanian Standard-Setters Group's (AOSSG) fifth annual meeting on 27 and 28 November 2013 in Colombo.

The meeting was hosted by the Institute of Chartered Accountants of Sri Lanka and attended by 17 member standard-setters as well as representatives of the International Accounting Standards Board (IASB).

The participating jurisdictions were Australia, China, Hong Kong, India, Indonesia, Iraq, Japan, Korea, Macao, Malaysia, Nepal, New Zealand, Philippines, Saudi Arabia, Singapore, Sri Lanka and Thailand.

The meeting discussed the findings of the AOSSG Islamic Finance Working Group's survey of the accounting and auditing practices in the Middle East and North Africa.

The findings indicate that a majority of respondents accept the application of Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions alongside the IFRS.

As the requirements of some FASs conflict with IFRS, members discussed to what extent financial statements of these entities depart from IFRS and whether an IFRS-compliance assertion is appropriate in this circumstance.

The Working Group may conduct a more systematic study of financial reporting by Islamic financial institutions in the Middle East in line with its objective of promoting IFRS in Asia-Oceania, a statement said.

Clement Chan was appointed the new chairman of AOSSG Chair with Steve Lim, Chair of the Korea Accounting Standards Board (KASB), as the AOSSG Vice-Chair for a term of two years.

The meeting also discussed the IASB's Exposure Draft of proposed amendments to the IFRS for SMEs,

It noted the work plan of the AOSSG IFRS for SMEs Working Group for the formulation of the AOSSG submission on the IASB's proposed revisions and that there were different uses of IFRS for SMEs across a number of AOSSG jurisdictions due to the diverse nature and business environments involved.

Among the objectives of the AOSSG are promoting the adoption of, and convergence with IFRS and promoting consistent application of IFRS by jurisdictions in the region.

It also helps in coordinating input from the region to the technical activities of the IASB and cooperating with governments and regulators and other regional and international organisations to improve the quality of financial reporting in the region.

CA Sri Lanka, SEC joint programme for directors on corporate governance, financial reporting and regulatory aspects

The Institute of Chartered Accountants of Sri Lanka recently signed a Memorandum of Understanding (MoU) with the Securities and Exchange Commission (SEC) to offer a joint accreditation programme to acquaint directors with the required knowledge on corporate governance, financial reporting and regulatory aspects.

The MoU was signed by Mr. Sujeewa Rajapakse, outgoing president of CA Sri Lanka and Dr. Nalaka Godahewa, the Chairman of SEC.

The programme for directors of listed companies will educate them on important aspects of corporate governance, financial reporting and regulatory aspects, thereby supporting them to effectively manage the affairs of companies for and on behalf of stakeholders.

As the trustees of the shareholders, directors play a major role in the business since being equipped with financial reporting requirements and governance aspects has become vital for directors to perform their duties and responsibilities diligently.

Having pioneered the introduction of Corporate Governance in Sri Lanka by issuing the first Code in 1997, and launching the subsequent Codes from 2008 onwards jointly with SEC Sri Lanka, CA Sri Lanka has contributed towards establishing a governance culture among corporates in the country.

Postgraduate diploma in business and finance offers MBA exemptions

Professionals seeking enhanced career prospects can fast track their dreams for an MBA with the assistance of the Postgraduate Diploma in Business and Finance offered by the Institute of Chartered Accountants of Sri Lanka.

Students who complete the CA Sri Lanka postgraduate diploma can enjoy upto five exemptions when sitting for the MBA programme offered by the University of Southern Queensland (USQ) Australia.

The CA Sri Lanka Business School, which conducts both the postgraduate diploma and the Australian MBA programme, is one of the country's foremost business schools with a proven track record surpassing over 12 years.

The USQ Master of Business Administration programme is also one of the most sought after MBA programmes in the country which is followed by business leaders as well as professionals from both the accounting and non-accounting sectors.

The postgraduate diploma helps both CA Sri Lanka members as well as senior executives and managers in the public and private sectors of the country to develop a broad perspective of their role in a developing economy. It also equips them with the necessary knowledge and expertise to maximize their participation in business, financial, industrial, trading and commercial activities.

Alphonsus Roshan Rajaratnam, Accountant of Finlay Cold Storage (Pvt) Ltd., who followed the postgraduate diploma offered at CA Sri Lanka, said the course was structured well keeping in mind the busy lifestyles of professionals, apart from the advantage of being able to fast track towards an MBA of international repute.

"Balancing a busy schedule is never easy, but at CA Sri Lanka, the Postgraduate Diploma in Business and Finance gave me an in-depth understanding of business and finance, and most importantly it opened the gateways to the University of Southern Queensland, Australia. My dream is coming true in just one year," Rajaratnam said.

Update

New members strengthen accounting profession

73
New FCAs

The accounting profession in Sri Lanka received a renewed boost with 250 new chartered accountants being granted Associate membership by CA Sri Lanka at the annual convocation held in October 2013 at Water's Edge in Battaramulla.

The convocation was held under the patronage of the Hon. Johnston Fernando, Minister of Co-operatives & Internal Trade, and Samantha Rajapaksa, Group Managing Director of Associated Motorways (Pvt) Limited as the guest of honour.

During the convocation, another 73 associate members were conferred the distinguished Fellowship status elevating them to the highest stratum in their professional careers.

Joining a fraternity of 4,300 existing CA Sri Lanka members, the new associate members were officially granted associate membership during the convocation which also signified the completion of their professional qualification in chartered accounting.

Special prizes were also awarded to 12 prize winners who fared exceptionally well at the strategic level examinations and at the top CA case study examinations.

HNB renews lead sponsorship

6th consecutive year in which HNB is lead sponsor

One of Sri Lanka's largest private sector banks, Hatton National Bank (HNB), recently reaffirmed its support to the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) by renewing its lead sponsorship for the year 2013.

HNB will assist CA Sri Lanka to carry out its numerous educational and professional development activities for the benefit of its members and students, with the underlying objective of helping develop the accountancy profession further.

Jonathan Alles, Managing Director/CEO of HNB, speaking at the event noted that the sponsorship will greatly benefit the Institute to carry out key events planned for 2013/2014.

He stated that HNB's close association with the institute further reinforces the recognition and respect the bank places on CA Sri Lanka, which is the foremost body and authority on accounting and auditing in the country.

CA Sri Lanka Council Members for 2014 - 2015

Name	Designation	Place of Work
Arjuna Herath **PRESIDENT**	Partner	Ernst & Young
Lasantha Wickremasinghe **VICE PRESIDENT**	Partner	B. R. De Silva & Co. / Alles Martin & Co.
Sujeewa Rajapakse **IMMEDIATE PAST PRESIDENT**	Managing Partner	BDO Partners
S M S Sanjaya Bandara	Partner	B. R. De Silva & Co./ Alles Martin & Co.
T Dharmarajah	Partner	Amerasekera & Co
Manil Jayesinghe	Partner	Ernst & Young
Shantha Kurumbalapitiya	Chief Financial Officer	Rockland Distilleries (Pvt) Ltd
Heshana Kuruppu	General Manager	Trischel Fabric (Private) Limited
Channa Manoharan	Advisory Leader / Chief Operating Officer	Pricewaterhousecoopers
N W G R D Nanayakkara	Superintendent of Public Debt	Central Bank of Sri Lanka
Jagath Chandana Perera	Partner	KPMG Ford Rhodes Thornton & Co.,
Coralie Pietersz	Director Finance	Finlays Colombo PLC
H A S Samaraweera	Auditor General	Auditor General's Department
Shan Shanmuganathan	Chairman	Finder 2000 (Pvt) Ltd.
Tishan Subasinghe	Partner	BDO Partners
W L P Wijewardena	Director	Regency Teas (Pvt) Ltd
Aruna Alwis	Secretary / Chief Executive Officer	CA Sri Lanka

CA EVENT CALENDAR

SEMINAR ON LEGAL AND TAX IMPLICATIONS OF MERGERS AND ACQUISITIONS
Speakers: Naomal Goonewardena, Mrs Sharmila Jayasekara.
Panelist: D K Hettiarachchi
9.00am - 12.30pm, 03-April 2014
Faculty of Taxation
CONTACT PERSON:
events@casrilanka.com

RHYTHM OF THE 70'S, MUSICAL SHOW
At the Bishop's College Auditorium
6.00pm, 05-April 2014
CA Sri Lanka, Staff Welfare Society
CONTACT PERSON:
thushara.yasarathna@casrilanka.com

SINHALA & TAMIL NEW YEAR CELEBRATIONS - 2014
BRC Grounds
8.30am, 06-April 2014
Benevolent Society
CONTACT PERSON:
benevolentsociety@casrilanka.com

OPEN DAY, BE A PROFESSIONAL GRADUATE!
CA Sri Lanka, Members Forum area
9.00 am - 10.30 am,
08-April 2014
School of Accounting & Business (SAB)
CONTACT PERSON:
jennifer.cooray@casrilanka.com

ANNUAL GENERAL MEETING
Followed by an evening of fellowship
CA Sri Lanka,
Members Forum area
5.30pm, 30-April 2014
CONTACT PERSON:
secretariat@casrilanka.com

Watery Gateway to the World

Cork, Ireland's third city, located in the South-West Region, may not be as well known as Dublin and Belfast, but offers visitors interesting historical sites, food and music

BY PADRAIG COLMAN

As well as shaking hands with former IRA Commandant Martin McGuinness, Queen Elizabeth II took time on her trip to Ireland to visit Cork's English Market in May 2011. She was impressed by the fact that the market victualled British troops, right back to the Napoleonic Wars. The cornucopia known as the English Market, a roofed food market that has been trading since 1788, is my favourite place in Cork city.

Like Cork City and the Irish economy, the English Market has survived, sometimes only barely, through good times and bad. In January 1789, the market closed when serious flooding put the entire city under water. The English Market remained open throughout the famine years (the starving kept at bay by a special constabulary unit). The Market miraculously survived the burning of the city by the British in December 1920. It has endured fires and attempts to replace it with a car park. The arrival of thousands of immigrants to the city has enriched Cork life and the market reflects this. The 'foodie' middle class can choose from an infinite variety of olives, foccacia breads and organic meats. Under the same roof, the old working class continues to buy cheap cuts of meat.

Life

GLOBAL CITY

Cork has long been a globalised sort of place. It, and Cobh (the Cove of Cork), was a departure point for people leaving Ireland to change the world and a reception point for receiving people wanting to change their own lives for the better. Thousands of famine-stricken migrants left Ireland from Cobh in the 1840s. The Titanic made its last stop in Cork harbour. Hundreds of the passengers of the liner Lusitania, whose sinking in 1915 by a German U-Boat brought the US into the First World War, were washed up in Cork harbour and buried in the city cemetery. To cash in on the tourist trade, one publican changed the name of his establishment from O'Leary's to the Lusitania. His rival next door changed the name of his pub from The Rotunda to The U-Boat.

A WET AND MARSHY PLACE

The name 'Cork' means marshy place and refers to the fact that the centre of Cork City is built on islands, surrounded by the River Lee. The river channels between the marshes were infilled to form St Patrick's Street, the Grand Parade, Henry Street, Grattan Street, Cornmarket Street, Sheare's Street. Recent pictures show St Patrick's Street looking like Venice. Global warming may eventually drown Cork.

NORSEMEN AND NORMANS

English people used to call my father (born in Cobh when it was called Queenstown) "Geordie" because there is a similar Scandinavian lilt to the accents of Cork and Newcastle-upon-Tyne. In the sixth century, St Finbarre founded a monastery, which was the beginning of the city. Cork experienced its first recorded encounter with the Vikings in 820, when they attacked Finbarre's great monastery. The Vikings and the monastic community eventually arrived at a form of peaceful coexistence. The seafaring and trading abilities of the Vikings proved to be a boon to the monastery and they established Cork as an important trading centre.

The name 'Cork' means marshy place and refers to the fact that the centre of Cork City is built on islands, surrounded by the River Lee.

NOT VENICE - ST PATRICK'S STREET, BUILT ON RIVER CHANNELS

The Anglo-Normans first came to Cork in 1172 and changed the look of the city by building city walls and churches. The city still has a continental kind of atmosphere although most of the medieval buildings have disappeared and the fabric of today's Cork dates mainly from the 18th and 19th centuries. It did not help that the thuggish Black and Tans set fire to the city in 1920 as a reprisal.

Like New Orleans, Cork has its French Quarter around French Church Street and Carey's Lane. Many Huguenots left France when the Edict of Nantes, which had granted religious freedom to Protestants, was revoked in 1685. Despite their small numbers, the Huguenots became prominent in the commercial and civic life of the city. Many Huguenots served as Sheriffs and Mayors of Cork.

GUNS AND BUTTER, BOOM AND BUST

Although it was a hotbed of rebel activity, Cork did well out of the British Empire. Haulbowline Island in Cork Harbour was a major British naval base and defence against Napoleon. Cork exported salted beef, pork and butter to the West Indies and fed the British navy. The unrivalled ability of Cork Harbour to shelter the biggest fleets assembled during the American War of Independence and, later, during the Napoleonic Wars was a major factor in the expansion of the provisions trade in Cork.

I remember when Cork was dirt poor. Ancient black-shawled women, like one might see in Greece, Sicily or Portugal, moved like shadows in the warrens of alleyways that climbed the steep streets. Beggars sat on St Patrick's Bridge. Henry Ford's grandfather was a Corkman from Ballinascarthy, who, in 1847, at the height of the Famine, made the gruelling voyage from Queenstown (Cobh) to Quebec. The Cork Ford factory was its oldest (established in 1917) outside the US. It closed in 1984 as did the Dunlop tyre factory, resulting in a loss of 2,500 jobs. The Dutch-owned Verolme shipyard at Rushbrooke gave up shipbuilding in 1985. At its prime, the yard employed more than 1,200 people working in shipbuilding, ship-repair, offshore platform modules and many other engineering enterprises.

VIAGRA BOOM

In the 1990s, new industries came to Cork. Cork City became one of Ireland's most important IT hubs. Low corporation tax attracted multinationals like Apple and Amazon. Pfizer manufactures Viagra in Cork. Many multinational pharmaceutical companies are located in Little Island. Cork is now Ireland's most important centre for the chemical industry and Ireland's only oil refinery is located at Whitegate across the harbour from Cobh.

TOURISM

The Cork International Jazz Festival has played host to everyone who is anyone in the jazz business. Guinness sponsor the Jazz Festival, although Murphy's brewed at the Lady's Well brewery in Cork is a far superior drink. The festival takes place at the end of October, just as the department stores are putting on their Christmas display. The Cork International Film Festival was established in 1956 and is still going strong every November.

Almost 100,000 passengers arrive in Cobh each year when large cruise liners berth right in the centre of the town at Ireland's only dedicated cruise terminal. Tourist attractions are focused on the maritime and emigration legacy of the town and include the Queenstown Story Heritage Centre, Titanic Experience, Titanic Trail walking tour, and St Colman's Cathedral. The town has remained largely unchanged since the Titanic departed from Cork Harbour in 1912, with the streetscape and piers still much the same. There is evidence of the greed years of the property bubble in that the spacious gardens of the grand houses on Lake Road have been subdivided and built on.

ALMOST 100,000 PASSENGERS ARRIVE EACH YEAR WHEN LARGE CRUISE LINERS BERTH RIGHT IN THE CENTRE OF THE TOWN AT IRELAND'S ONLY DEDICATED CRUISE TERMINAL

The Cork International Jazz Festival has played host to everyone who is anyone in the jazz business.

THE QUEENSTOWN STORY HERITAGE CENTRE, ONE OF THE MAIN ATTRACTIONS IN CORK

HOPE FOR THE FUTURE?

According to the IDA (Irish Development authority), Cork is the industrial heart of Ireland. Dublin as a region had the lowest proportion of Irish-owned industrial units in 2011 at 14.5%. The south-west region, with a much smaller population, accounted for 15% of Irish-owned industry. Average industrial wages in the Cork region are €44,800, while the Dublin region is next highest at €44,700.

The English Market is a good symbol for Cork, encapsulating the political, socio-economic, cultural and dietary history of the city across 226 years. The first surge in economic growth in the 1960s led to a more open and adventurous outlook and significant changes in patterns of food buying and eating. Ireland used to be a gourmet hell but now Cork has celebrity chefs and fine restaurants. In the 1990s, influences from abroad were absorbed.

The English Market still thrives despite the economic downturn. English Market produce left unsold goes to the homeless. Homeless people have been known to ask ABC (the Alternative Bread Company) "Do you have any of that rosemary focaccia?"