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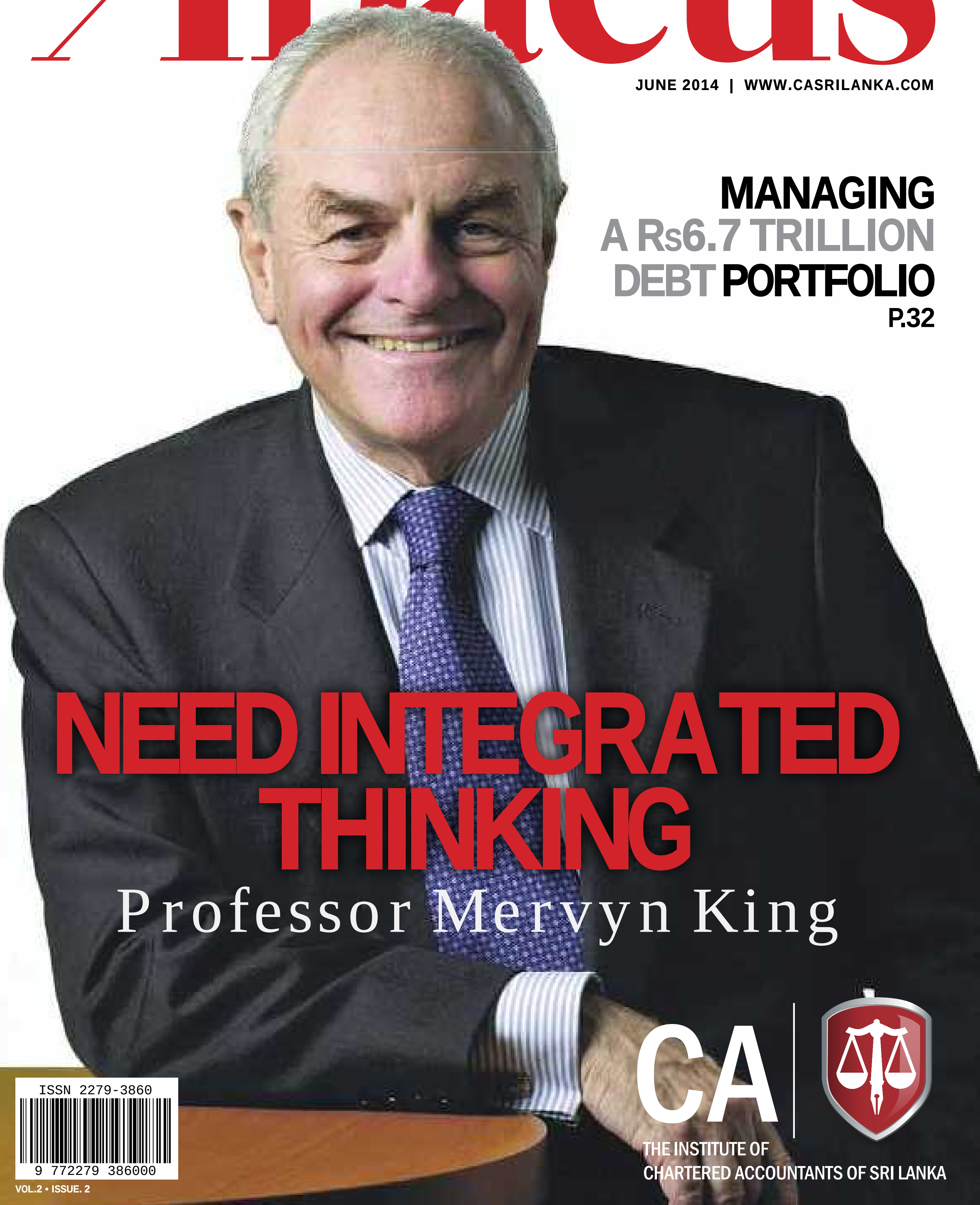

MANAGING A Rs6.7 TRILLION DEBT PORTFOLIO

P.32

NEED INTEGRATED THINKING

Professor Mervyn King

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CA

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

theAbacus

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Intelligence & Insight from
CA Sri Lanka

The evolving financial reporting framework

Getting the new set of accounting standards that's been introduced adopted across di erent national jurisdictions and cultures remains a work in progress. The 2014 South Asia conference on Financial Reporting for Economic Development, the first of its kind in Asia which CA Sri Lanka had the privilege of hosting, provided an opportunity to discuss the current state of play in applying the rules. We took the opportunity to interview visiting delegates, experts in di erent fields, who took part in the conference, jointly organized by the Confederation of Asian and Pacific Accountants, International Federation of Accountants (IFAC) and the World Bank. It brought together around 200 regulators, policy makers, business leaders, academics and professionals.

Mervyn King, one of the standard bearers of Integrated Reporting that companies are increasingly adopting the world over, adorns our cover. He outlines how it emerged and why South Africa became a world leader in IR and its importance for companies in the future.

In our Focus On section you can read about why training is essential to be a competent company director and mull the bad habit of tax dodging through transfer pricing in Periscope.

And in our travel story this time we take you to Prague, one of Europe's exciting capital cities, on a tour of mystery and magic.

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.

CONTRIBUTORS
Mark Hager
Padraig Colman
Rohan Gunasekera
Shamindra Kulamannage
Sravasti Ghosh Dastidar

DESIGN & LAYOUT
Indika Sriyan Gammudali

PHOTOGRAPHY
Shafraz Farook
Ruvin de Silva

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

CA SRI LANKA
30A, Malalasekera Mawatha, Colombo 7, Sri Lanka
T : 0094-11-2352000
F : 0094-11-2352060
E : secretariat@casrilanka.com

A word from the President

Maintaining our versatility and vision

“Our members today give leadership to regional accounting bodies, while some others enjoy a strong presence at various international level committees on accounting”

As the torch bearers of Sri Lanka’s accounting profession, CA Sri Lanka is determined to stay ahead and be relevant with changing times. We have consistently played a key role in ensuring Sri Lanka enjoys a robust and sound financial landscape, by imparting the required skills and knowledge in our members.

Corporate directors play a critical role in their capacity as the trustees of shareholders in safeguarding public interest and propagating good corporate governance. In keeping with our continuing objective to o er the best and most pertinent programmes for the advancement of our professionals, CA Sri Lanka together with the Securities and Exchange Commission recently launched the Corporate Directors Programme. This aims to enhance existing competencies and help them grapple with new regulations and challenges while e ectively fulfilling their corporate role and obligations.

The inaugural programme on 26th June 2014 received an overwhelming response. I am certain that the Corporate Directors Programme will truly be an enriching, insightful, and rewarding experience for directors.

CA Sri Lanka was the proud host of the Financial Reporting for Economic Development Conference which was jointly organized by the Confederation of Asian and Pacific Accountants (CAPA), International Federation of Accountants (IFAC) and the World Bank.

The conference convened over 200 policy makers, regulators, business leaders, academics and professionals, including a galaxy of internationally celebrated accounting and financial personalities such as IFAC Chief Executive Fayez Choudhury and Chairman of the International Integrated Reporting Council Prof. Mervyn King. It demonstrated the role and importance of accounting and auditing to enhance the business climate, boost shared prosperity and strengthen public financial management across the region.

The decision to hold this conference in Sri Lanka, the first of its kind in Asia similar in concept to the annual conference held in the Latin America and the Caribbean region, was not by accident. It is because of the phenomenal impact and influence Sri Lanka has in the international financial and accounting arena. Our members today give leadership to regional accounting bodies, while some others enjoy a strong presence at various international level committees on accounting. The accounting profession in this country has embraced and rapidly adapted to changes taking place in the profession globally and locally. The standing of our accounting profession today is on par with any country in the world.

Last year, we kicked o the second phase of our infrastructure development project, a big part of which is now complete, giving members and students better facilities such as a well-stocked library. We will continue to develop our infrastructure to o er better and improved services.

Among the significant recent events were a CEOs’ Forum, a CFOs’ Forum and the Board Meeting of CAPA. In the coming months we will host several other programmes to enhance the knowledge and skills of members and students, ensuring they are kept up to date with the changing trends, helping them to maintain their versatile and visionary image for which they are sought after the world over.

Arjuna Herath
President - CA Sri Lanka

Periscope

GOVT DEBT ‘BAIL OUT’ FOR BANKS

The private sector, especially banks, are virtually being ‘bailed out’ by increased government borrowing and not being crowded out as widely held, a new research report says. A significant trend traced in the report by Asia Securities was that growth in total assets of the banking sector outpaced the growth in total loans and advances in 2013.

“Assets growth continued unreservedly despite the moderation in private lending activities during the year” Asia Securities stock brokers said in its banking sector review. “This can be attributed to the shift in allocation of banking sector loanable funds from private lending towards instrumental government borrowing in the form of treasury securities, similar to what took place in 2009.” The reverse trend - expansion of loans and advances at a higher rate than total assets - was seen during the following two years (2010 – 2011) when private sector activity grew at break neck speeds. Asia Securities stock brokers said this recurring trend could be viewed as an “automated balancing act” within the market mechanism itself rather than a conscious e ort of a particular entity. Higher private sector growth leads invariably to lower pace of public debt expansion as it leads to higher tax revenue generation and hence reduces the scarcity of funds available in the public sector. The reverse remains true when private sector investments moderate, the report said, with public borrowings tending to increase in the face of dwindling tax revenue caused by moderation in private sector investments.

“The rate of public debt expansion is in inverse proportion to the rate of growth of private investments in an economy” the report said.

The growth in banking sector assets tends to outpace the growth of loans and advances when the pace of private sector investments moderate. But this reduces the profitability of the banking sector as the asset composition gets concentrated within a lower yielding asset class.

70.7%
drop in volume of loans disbursed in 2013 from a year ago

72.6%
Year-on-year increase in volume of investments into government securities

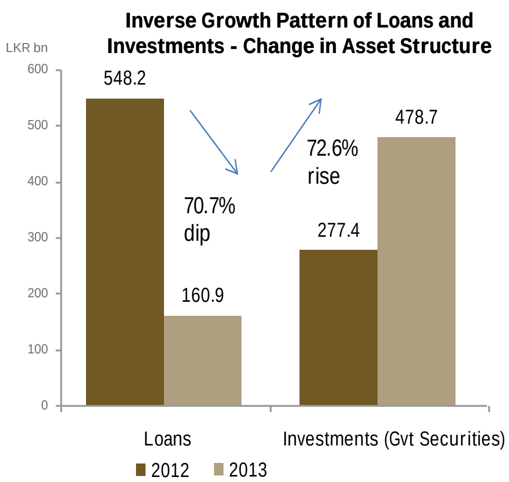
16.6%
growth in total assets of the banking sector outpaced the growth in total loans and advances of 8.8% year-on-year in 2013.

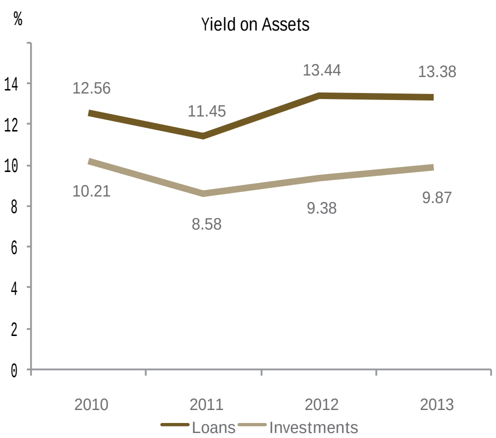
“This is reflected in the drop in profits of the sector in 2013 and also during 2009” Asia Securities said. “However, in the absence of this mechanism, the banking sector may face cash flow concerns during periods where private investments moderate. Despite the drop in profits, rising public debt during periods where private credit growth declines has helped the banking sector as a whole to remain profitable in the face of growing bad loans coupled with the drop in lending. The change in the structure of banking assets is indicated by the drop in the volume of loans disbursed in 2013 and the simultaneous increase in volume of investments into government securities.

“The private sector in general and banks in particular benefit from this development rather than being crowded out by the government as it is widely held” the Asia Securities report said. “This is so given that government borrowing in times of moderation of private investments yields a secure source of return for the surplus funds of the private sector which the latter is unable to acquire or riskier to acquire through other means such as direct investments.”

This phenomenon provides the banking sector with space to ‘invest’ its surplus funds profitably without having to expose itself to risks involved in private lending, and hence, enabling them to pay interest on deposits when private investments and consumption are not su ciently absorbing the loanable funds of the banking system.

“Therefore, rather than being crowded out, the private sector is almost being bailed out by increased public debt during times of slowdown of private investments” the stock brokers said.





Source: Compiled with CBSL data

TAXES HIGH ON ESSENTIAL GOODS

Increased government debt means that it has to borrow more or raise taxes to repay the loans. High prices of essential goods owing to tax hikes, depreciation and higher electricity rates are hitting fixed income earners while also raising costs for banks, a report by Asia Securities says.

"The government is compelled to cover the ensuing loan repayments by resorting to further borrowing or resorting to increased taxation."

"Sri Lanka's fiscality (government revenue collection), whose pivot is formed by taxes on the most necessary means of subsistence, leads to the latter's price increases (rather than as a result of increased demand in the system due to budget deficits)" the report said.

"Given that consumer taxes occupy around 80% of Sri Lanka's total tax revenue, this would mean that the process under examination causes a transfer of aggregate incomes from fixed income earners towards that of variable incomes through the unified operation of fiscal and monetary mechanisms in the economy in times of moderation in private investments."

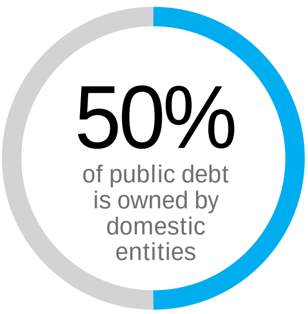
This is because tax increases are mostly directed at financing interest and capital payments of public debt of which over 50% is owned by domestic entities.

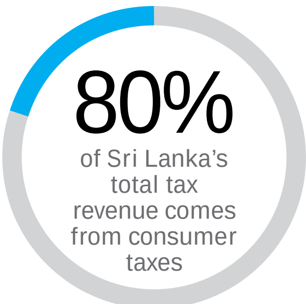
The relatively higher level of prices of consumer essentials following the depreciation of the currency coupled with tax increases and higher electricity tariffs under a falling rate of interest in the economy leads to two key developments regarding proportional aggregate incomes and savings.

One is a shift in relative incomes in the economy from fixed income earners (salaries and wages) towards that of variable incomes.

"This shift in proportional aggregate incomes towards variable incomes (profit, interest, rent etc.,) under relatively high essential living costs, falling interest rates and higher level of taxation depletes the savings growth of fixed income earners while increasing it on the part of the variable income receivers" the report said.

Given that the latter group of savers tends to amass a higher portion of their savings in less liquid, high interest earning term deposits, the savings composition of the economy in turn tends to shift towards term deposits from that of savings, increasing the cost of funds of the banking sector in its turn. ■





External debt seen heavy

45% ► Net external debt as a share of GDP is almost triple the 'BB' peer category median

6 ► Expected non-performing loan ratio for the banking system in 2014

Fitch Ratings has confirmed Sri Lanka's Long-Term Foreign and Local Currency IDRs at 'BB-' with a stable outlook but noted that the country's external debt is high. The rating agency said public finances are weak relative to peers despite fiscal consolidation with both the budget balance (-5.9% of GDP in 2013) and government debt burden (78.3% of GDP in 2013) more than double the 'BB' category medians of -2.7% and 35.9% of GDP, respectively.

It acknowledged that the 2014 budget "signals commitment" to medium-term debt reduction to maintain a gradual fiscal consolidation path, although the process is "slow and to a large extent built on revenue projections that may turn out too optimistic."

Fitch said Sri Lanka's current account deficit has fallen from 6.7% of GDP in 2012 to 3.9% in 2013 and is expected to narrow further to 3.2% by 2015 due to solid income from tourism and remittances.

"Nonetheless, the current account deficit remains persistent and is only for a relatively small part financed by FDI inflows, which are relatively low" it noted.

"Hence, net external debt (45.1% of GDP in 2013) is almost triple the 'BB' peer category median of 15.9% of GDP. External liquidity is weak."

Fitch said Sri Lanka's capital account restrictions had protected it from the volatility of Quantitative Easing by the United States that affected other countries.

"Quantitative easing (QE) by the U.S. Federal Reserve has so far not led to severe market pressures for Sri Lanka" it said in a report.

"The country benefitted less than many other emerging markets from the QE-related search for yield given its relatively closed capital account. The government has been able to secure some US dollar financing through issuance on the bond markets twice in 2014".

Fitch also said Sri Lankan banks' performance is supported by high real GDP growth and monetary easing, but the non-performing loan ratio (NPL ratio) for the banking system was relatively high at 5.6% in 2013, and it may rise further to more than 6% in 2014.

"However, the banking sector is not very large relative to the economy, with the credit to GDP ratio at only around 40% at end-2013."

A Stable Outlook reflects Fitch's assessment that upside and downside risks to the rating are well balanced.

But Fitch said a negative rating action could be triggered by economic overheating, which could be illustrated by a surge in inflation, pressure on the rupee and widening of the trade deficit.

Failure to achieve a reduction in government budget deficits from currently high levels will also be seen as negative as would intensification in external financing risks, particularly a renewed widening in the current account deficit combined with a fall in capital inflows, or a decline in foreign exchange reserves.

But a prolonged period of real GDP growth that is consistent with moderate and stable inflation and external equilibrium could trigger positive rating action as would significant improvement in external finances, with sustained smaller current account deficits, higher levels of non-debt capital inflows (foreign direct investment) and a lift in foreign exchange. ■

Periscope

NBT pushes up e□ective tax rate

▲41.4%

EFFECTIVE TAX RATE

▲Rs.1,144 Mn

TOTAL LOAN LOSS IMPAIRMENT, UP 124% IN 1Q2014

The 2% Nation Building Tax (NBT) introduced to the banking system from 1 January 2014 has pushed up the e ective tax rate of Commercial Bank.

According to CT Smith Stockbrokers the E ective Tax Rate (ETR: including Financial Value Added Tax) rose to 41.4% in the first quarter of the 2014 financial year - the highest since 4Q2010 - from 39.8% in 1Q2013.

CT Smith Stockbrokers said in a report that Commercial Bank's reported earnings per share of Rs.2.7 for 1Q2014, while up 2% from a year ago, were below expectations. This was owing to lower net interest spreads, negative loan growth, worsening asset quality and relatively higher e ective tax rate.

The bank's deposits growth remains strong while there were impairment increases due to increased non performing advances. Total loan loss impairment rose 124% to Rs.1,144 million in 1Q2014 from a year ago, on account of worsening asset quality compared with the previous quarter, the report said.

"Commercial Bank's loan book contracted marginally on a quarter-on-quarter basis to Rs.418 billion as at 31 March 2014, below our expectations, on account of lower private sector demand for credit" it said. However, as at 31 March 2014, Commercial Bank's financial assets and investments held for trading rose by Rs.33 billion during the quarter to Rs.163 billion and the deposits base rose 5% QoQ to Rs.472 billion

"On account of revised spreads, fund growth and impairment assumptions, Commercial Bank's net profit forecasts are revised down by 8% each for 2014E and 2015E to Rs.10,780 million (up 2% YoY) and Rs.11,792 million (up 9% YoY) respectively." ■

0.78

AVERAGE TAX BUOYANCY - how well revenue mobilization tracks GDP growth - for the past 5 years, which is significantly below unity and indicates that tax collection has been unresponsive to the pace of economic expansion

MARCH EXPORTS HIT NEW HIGH

87.7%
Increase in export earnings from minor agricultural products

28.6%
Year-on-year increase in exports to US$ 1,070 million in March 2014

US$ 1,862 mn
Cumulative trade deficit in first three months of 2014, down by 13.5% year-on-year

20.3%
Increase in export earnings from tea to $155 million

Sri Lanka's export earnings in March 2014 increased sharply - by 28.6% from a year ago - to US$ 1,070 million continuing the improvement in external trade from the second half of 2013.

"This was the highest monthly export value ever recorded" the Central Bank said. Spending on imports increased by 8.2% to US$ 1,672 million in March 2014.

As a result of an increase in inflows from workers' remittances, along with the significant growth in earnings from tourism, the current account deficit in the first quarter of 2014 narrowed substantially.

The balance of payment in the period January to March 2014 is estimated to have recorded a surplus of $828.3 million compared to a surplus of $153.6 million in the same period of 2013.

Export growth came from all major export categories with the largest contribution to overall growth from industrial exports, which grew by 25.7% year-on-year, to $779 million.

The leading driver of the growth in industrial exports was export of textiles and garments which grew by 32.6% year-on-year to $457 million in March 2014, reflecting significant increases in exports to both traditional and non-traditional markets.

Export earnings from transport equipment increased by more than six fold due to the export of ships, boats and floating structures. Rubber product exports also increased by 10.9%, mainly due to an increase in export of rubber tyres.

But earnings from gems, diamonds and jewellery fell by 21.9% year-on-year, due to the substantial decline in diamond exports as a result of low global demand.

Export earnings from petroleum products which mainly comprise bunkering and aviation fuel fell by 14.4% due to a decline in export volumes despite the increase in prices.

Agricultural export earnings grew by 22.4% in March 2014 to $257 million, mainly due to tea and coconut products. Export earnings from tea increased by 20.3% to $155 million, the highest monthly value.

"This was a combined outcome of a 14.3% increase in export volume and an increase in the average export price of one kilogram of tea by 5.2% to $5.02" the Central Bank said. Earnings from coconut product exports more than doubled due to improved performance in both kernel and non-kernel coconut products in terms of both price and volume.

Earnings from rubber exports declined by 32.1% year-on-year in March 2014, due to significant declines in both export volumes and prices. ■

No worries over credit growth, NPLs

Credit growth and non-performing loans (NPLs) are at "more than satisfactory levels" once the e ects of pawning advances are discounted, Asia Securities stock brokers said.

As at March 2014 credit growth to the private sector without pawning advances reached 12.8% Year-on-Year while overall growth fell to 5.1% YoY in the corresponding period. "This means the core sectors of the economy continue to absorb healthy levels of credit disbursements," the brokers said in a report.

6.5%
AMOUNT OF NON-PERFORMING LOANS OF THE BANKING SECTOR BY FEBRUARY 2014

12.8%
CREDIT GROWTH TO THE PRIVATE SECTOR WITHOUT PAWNING ADVANCES AS AT MARCH 2014 YEAR-ON-YEAR

It also means that "NPLs which are mostly concentrated within the pawning sub-category (over 75%) can be written o with relatively lower losses due to the liquidness of gold as collateral."

The report also notes that the majority of the gold backed loans are concentrated within the state-owned banking institutions.

"Hence, the impact on listed banks shouldn't be significant especially given that the latter have taken sweeping steps to reduce exposure to pawning advances."

Recent reports highlighted the continuous contraction in credit growth to the private sector despite the lowering of market and policy interest rates hand in hand with the recent spike in non-performing advances of the banking sector to 6.5% by February 2014 from 3.7% at the end of 2012.

ATM outsourcing in the o□ng

Number of ATMs islandwide

Banks are likely to share automated teller machines in Sri Lanka in the future and also outsource their deployment and management to third party service providers, according to LankaClear, the national payment infrastructure provider.

"What's happened in developed economies - what'll come next is - there's something called the 'brown label' ATMs and the 'white label' ATMs which will follow once the infrastructure is in place," says Sunimal Weerasooriya, General Manager / CEO of LankaClear.

Weerasooriya said the brown label' ATM is where a bank outsources their complete ATM network to a third party to run while retaining their branding and they pay by the transaction.

The 'white label' concept is where banks say they don't want to have their own ATM network at all and instead piggyback on other third party providers' ATM networks.

Power purchase renewal creates dividend uncertainty

Non-renewal of the power purchase agreement of the Heladhanavi electricity plant, a key source of dividends to Hemas group, could reduce the conglomerate's earnings.

The PPA of Heladhanavi, a 100MW plant run as a joint venture between Hemas Holdings and state-owned Lakdhanavi, is up for renewal in December 2014.

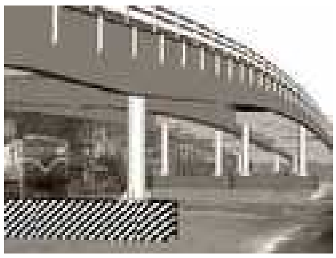
"The plant is the main dividend contributor to Hemas Holdings. In the event Heladhanavi's PPA is not renewed, dividends paid to the holding company are likely to decrease," Fitch Ratings noted. However, Fitch expects this negative impact to be mitigated by the fact that the holding company's leverage adjusted for its wholly owned subsidiaries is low. Fitch said it expects the group is likely to maintain financial leverage (measured as gross adjusted debt/Operating EBITDAR) at less than 3.0x over the medium term, despite ongoing new investments and expansions across the group.

The ratings agency gave Hemas Holdings' billion-rupee debenture issue a final rating of 'A+(lka)'.

Hemas Holdings is likely to use the proceeds for refinancing existing debt, which will lengthen its debt maturity profile.

RS
140
BN
SRI LANKA INSURANCE CORPORATION ASSET BASE

US$
1,663
MN
CUMULATIVE WORKERS' REMITTANCES IN FIRST THREE MONTHS OF THIS YEAR, UP 12.2%



31%
GOVERNMENT INVESTMENT RATIO IN 2013, UP FROM 28% IN 2010

Periscope

INTERNATIONAL

Trade mispricing - curse of resource-rich developing countries

Corrupt and opaque financial practices deprive resource-rich developing countries of "staggering" amounts of money, according to UNCTAD Secretary-General Mukhisa Kituyi.

"For example, the Africa Progress Panel recently estimated that trade mispricing deprived countries in sub-Saharan Africa of approximately US$38 billion per year, and that other illicit outflows deprived them of an additional US$25 billion" Dr. Kituyi said. "These illicit outflows are greater than the total inflows of aid and foreign direct investment that these same countries receive on an annual basis," he told the UNCTAD Global Commodities Forum in Geneva. The sensitive issue of transparency, and the linked matter of global value chains in the commodities sector, was probed by experts from intergovernmental organizations, academia and the private sector at this year's Global Commodities Forum.

Since its creation in 1964, UNCTAD's aim, Dr. Kituyi said, "has been to identify solutions that transform the commodity sector from a poverty trap to an engine of growth."

Acting Director-General of the United Nations O ce at Geneva Michael Møller said that "consumers want to know where their goods are coming from, that they have been produced sustainably and without corruption, and that taxes have been paid."

Møller placed the discussion into the context of the post-2015 development agenda, the goals of which are now being debated by a body of the United Nations General Assembly. "The global value chain and how to make it work better for developing countries has to be placed firmly at the centre of that debate" he said.

60%

Share of global value chains across geographic regions in international trade

US$38 BN

Amount lost by sub-Saharan Africa each year owing to bad financial practices

Dr. Kituyi said that global value chains – which describe a sequence of activities undertaken to bring products to market that are coordinated by several firms across geographic regions – account for more than 60% of all international trade.

Whereas in the past such chains were controlled by vertically integrated companies, Dr. Kituyi said "advances in transportation and communication technologies have disaggregated supply chains globally".

"This new, disaggregated framework shifts the types of opportunities available to commodity-dependent developing countries" Dr. Kituyi added.

Arancha González, Executive Director of the International Trade Centre, said the international community has to "collectively change the mind-set that richness of natural resources and dependency on commodities is a curse". Citing ITC programmes in agricultural commodities sectors such as cotton, spices and fruit, Ms González said that private voluntary standards aimed at increasing transparency and improving governance were delivering measurable benefits to the small and medium-sized enterprises working in those sectors.

TRACKING TAX EVASION IN COMMODITIES

Tax evasion by transnational corporations (TNCs) using transfer pricing is not limited to the commodities sector, so compliance and punishment should fall within the wider discourse of tax evasion and tax havens, according to UNCTAD.

"Transparency efforts in the commodities sector can focus on imparting specific knowledge to tax authorities of the commodities value chain's activities and prices, so that they can identify transfer pricing-related irregularities in TNCs' tax filings."

Resource owners in commodity dependent developing countries are indirectly deprived of value when the purchasing company evades paying taxes on the fair market value of its operations in their country.

In the commodities context, vertically integrated TNCs can evade taxes in the country where they produce their raw materials, by using transfer pricing to shift their taxable income to a lower tax jurisdiction.

A recent study by the African Development Bank and Global Financial Integrity estimated that, between 1980-2009, African countries lost between US$597 billion and $1.4 trillion in net resource outflows, mostly in the form of tax evasion.

Used responsibly, UNCTAD says, transfer pricing is a benign accounting practice that allows vertically integrated companies to log transactions between its subsidiary units that do not involve an arms-length exchange of cash for goods – the key accounting principle being to apply fair market value to each cashless entry.

"But to evade taxes, TNCs can manipulate the value of transactions between subsidiaries in different tax jurisdictions values, for example by overstating the transportation costs charged by the importing subsidiary, or by understating the price of raw materials shipped by the exporting subsidiary. Both entries would shift the TNC's overall taxable income to a lower tax jurisdiction."

US$
597
BN
-
1.4
TN

ESTIMATED LOSSES BY AFRICAN COUNTRIES IN NET RESOURCE OUTFLOWS, MOSTLY THROUGH TAX EVASION

An example of transfer pricing irregularities was revealed in 2011 with the leak of an audit by accounting firm Grant Thornton of tax filings by Mopani Copper Mines Plc, a Zambian company that owns mines and processing facilities

Trading company Glencore controls Mopani, the second largest mining company in Zambia, through a holding company registered in the tax haven of the British Virgin Islands.

Mopani's 2000-2008 tax filings in Zambia leaked on the internet showed the auditors had found overwhelming evidence that Glencore and Mopani had actively manipulated transfer pricing in their books to shift their tax liability away from Zambia.

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City School of Architecture,
Sri Lanka Institute of Architects Building - 2nd Floor, 120/7 Vidya Mawatha,
Colombo 7.
Tel: 2678270, 5737120
Email: sliacsa@sltnet.lk
Website: **www.csacolombo.edu.lk**

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city school of architecture

By
Vinod Moonesinghe

Upgrading service culture

The 21st century has been called the Age of the Customer, in which excellence in service has become the raison d'etre for organisational activities, in both business and the public service. If that is so, then Sri Lanka still belongs in the 19th century. Neither the commercial nor the government sectors possess a service culture, with its prioritisation of the fulfilment of customer needs. There are cultural and economic barriers to such an orientation within our society.

After the Boxing Day Tsunami of 2004, many overseas tourists in Sri Lanka remarked that the locals had first seen to the wellbeing of the foreigners, whom they looked upon as their guests, before seeing to their own interests. In Thailand, on the other hand, many foreign tourists felt abandoned by the people of their host country. This solicitousness is part of the sense of hospitality which is one of the most endearing features of Sri Lankan culture. Yet, the number of tourists going to Thailand in a month is more than double the annual number of arrivals in Sri Lanka. Thailand has consistently scored second place as Lonely Planet's most 'value for money' destination in the world – and Sri Lanka does not even feature on the list.

This solicitousness is one of the most endearing features of our culture

There are many reasons why Sri Lanka - which has probably the world's greatest variation of climate, ecology and culture, packed into a tiny area - scores so badly in the tourism stakes. One of them may be the fact that we do

Perspective

not really deliver good service.

Some years ago, making sure that a foreign former VIP was housed adequately at a top Colombo hotel, I appraised the management of his importance and requested that there be no shortcomings in his accommodation. However, the next day I discovered that the lavatory in his bathroom did not function.

Although this is anecdotal, the accumulation of anecdotal evidence points to the absence of a service culture in our hospitality industry. It lacks commitment to providing the customer with prompt, professional, and courteous service; responding to individual needs and ensuring they are fulfilled; communicating with the client clearly; and, most importantly, accepting responsibility for the standard of customer service.

To be fair, this deficiency is not confined to the tourist trade, but is characteristic of Sri Lanka's business sector. For example, shopping at a local supermarket, when I got to the check-out counter, I found no-one there to serve the customers. I contacted the complaints department of the supermarket chain, but received no feedback on what action was taken.

That chain needs a corporate service culture; that is, the pattern of basic assumptions that it uses in its business - the norms and values shared by its sta - and which drive its daily priorities, excludes excellence in its provision of customer service. The mentality of its employees does not prioritise customer satisfaction and its activities do not contribute demonstrably to realising customer aims and intentions.

On another occasion, a refrigerator which I had bought from a reputable retail chain, was defective. It being under guarantee, I took it to their after-sales service provider, and was told that they would have to import the part. Finally, after telling me repeatedly that there was a delay in shipping, the after-sales service provider closed down. The sta at the outlet at which I had bought the item from thought the matter most amusing. Hardly excellence in serving the customer.

An acquaintance complained to me about the lack of service provided by the 'privilege' or 'priority' services of banks operating in Sri Lanka. Often the designated personnel are not available, the 'priority' cashiers' stations are not manned, and the other employees do not appear trained adequately to deal with 'privilege' clients.

The issue is not such individual instances of shortfalls in service, but their widespread repetition, which indicates the prevalence of a systemic defect rather than just a series of isolated faults. The lack of a corporate service culture extends to almost the entirety of the business sector, and further, to society as a whole.

Most people will take the easy way out and not argue, some voting with their feet. The result is that institutions continue to pursue customer-unfriendly policies and procedures

It is not unusual for a customer to be faced with personnel who apologise for mistakes and blame it on other members of their organisation or, indeed, on their organisation itself. Of course, the customer-interface employees should realise that the di culties the service-provider might be having are not the customer's problem.

I had occasion to argue with a police officer about whether or not I could turn down a road. He told me that I should have used a detour which I was unfamiliar with. I pointed out that the detour should have been signposted properly, saying this was the procedure in other countries. The policeman replied that this was Sri Lanka.

It is not just the government, but the public itself which accepts this situation. Most people will take the easy way out and not argue, some voting with their feet. The result is that institutions continue to pursue customer-unfriendly policies and procedures. The public continues to act as if, since this is Sri Lanka, excellence does not matter and they should accept whatever treatment they are dished out.

On the subject of dishing out, most of the take-away restaurants, which have sprung up besides the roads leading from Colombo to its extra-municipal suburbs (and inside the suburbs themselves), serve food of limited variety, dubious quality and indi erent taste. Yet the eating public continues to consume their products, complaining (in private) all the while.

Several indigenous food outlets have tried to emulate the success of the foreign fast-food franchises, but with poor results. The reason is that they copy the products and appearance, but not the service philosophy of the model institutions.

In the advanced countries, a service culture is deemed fairly important by governments as well as by businesses; in all sectors, service consciousness has top priority in strategic and operational ideology - it is not a marginal concern. The most important factor determining the success or failure of an organisation - be it private or public - is considered to be customer service. Misleading advertising and slick marketing are no longer su cient.

The importance of a service culture is so great that there are consulting firms specialised in

Perspective

advising clients on re-organising and managing their internal 'climate' for service to customers, developing positive employee attitudes and common staff goals and routines.

The troubles in Sri Lanka's corporate culture go fairly deep. The broader public's lack of discernment prevents customer satisfaction becoming of singular importance to profitability in our business environment, which makes a change to greater service-orientation less likely.

Unfortunately, the existing work culture makes the creation of a more service-centred orientation difficult. One problem is the lack of competence or adequate training. The proficiency of junior staff is hampered by the 'guru mushtiya' effect, whereby more senior staff do not transfer their knowledge to less experienced employees, fearing they might lose their competitive advantage if they do so.

Recently I was asked by a customer-relations employee of a private-sector firm to fill a client satisfaction form. I had several concerns which were not catered for by the form, so I began outlining them to her. She did not take notes, and ended the discussion abruptly by saying 'whoever is handling the form will deal with whatever you have written'. Clearly, an insufficiently-competent person had been put on the all-important customer interface to collect customer-satisfaction data!

In an organisation with a strong service culture, this matter is unlikely to have surfaced: what the employee has to do when a customer makes an unusual request would be apparent to them, because of the existence of clear norms within the culture that enable them to respond in a uniform manner. The staff must internalise the perception that their business is about providing customer service.

New employees are formed by the culture of the organisation. If a strong service culture is lacking, the employee who is keen and service-minded will be stifled and brought down to the level of the others. On the other hand, the pressure to conform will cause even mediocre personnel to react positively in a robustly customer-oriented environment.

What is required is a system of customer service to be in place, which motivates and informs all members of the staff, whatever their distance from the customer interface, ingraining in them the behaviours and attitudes to perform consistently and excellently.

So what is to be done? There are several institutions which can act as beacons for the rest of the country to follow. For example, the local McDonalds franchise follows the corporate philosophy of its parent in the USA and has a well-trained staff committed to service (indeed, many firms prefer to recruit McDonalds employees to serve at the executive level).

Many firms prefer to recruit McDonalds employees to serve at the executive level

Some domestic retailers use trained customer-relations personnel as floor-walkers, which shows that they know the importance of a service culture. There are several consultants who have experience of both the international approach as well as of local conditions, whose expertise could be utilised.

Of course, the first step is to acknowledge that there is a problem. Apart from one or two documents by experts, one searches in vain in the literature for references on the necessity to build a service culture in Sri Lanka. In particular, there appears to be no recognition by the government of this need. There needs to be commitment on the part of both business and government to change both organisational and national thinking.

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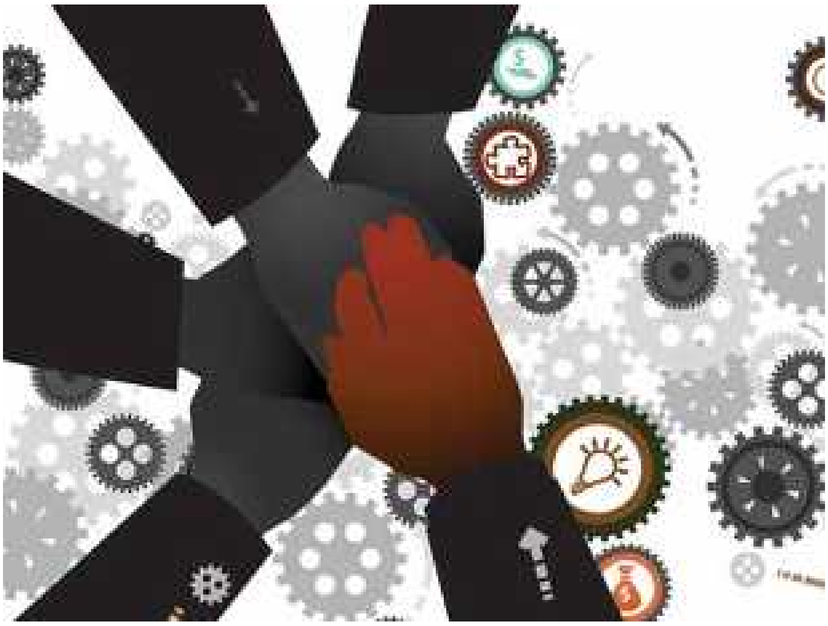
The Leader in Developing You and Your Country

By
Padraig Colman

Credit Unions – Banking and Social Responsibility

Will the conventional banks ever provide "a New Moral World" of happiness, enlightenment, and prosperity?



When I called in at Midleton Credit Union just before Christmas, I was immediately o ered a piece of cake and a glass of red wine. This was around 10am and there was already a good deal of red-faced conviviality in the branch. Whenever I stopped by to make a deposit or withdrawal, the manager would call me in for a friendly chat.

I have a similarly cordial relationship with my local Sampath Bank manager but one could never imagine such a thing with conventional banks in the UK or Ireland. If one tries to phone the Croydon branch of Barclays, one finds that all branches have the same telephone number and when one dials that number, one finds oneself speaking to someone in Bangalore rather than Croydon. Barclays plan to cut 12,000 sta this year. The bank's total bonus pool for 2013 rose by 10% to £2.38bn, from £2.17bn in 2012, with the investment bank's bonus pool increasing by 13%.The level of personal service is unlikely to improve.

Credit Unions originated in the 19th century, based on the ideas of Robert Owen in the UK, Herman Schulze-Delitzsch in Germany and Alphonse Desjardin in North America. Owen was born in Wales but moved to Manchester, then to Scotland (where he achieved commercial success operating on principles that became the basis for the cooperative movement in Britain). He then bought a town in Indiana which he renamed New Harmony. Unfortunately, the utopia failed. Owen's vision was of "a New Moral World" of happiness, enlightenment, and prosperity through education, science, technology, and communal living.

A Credit Union is a member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members. Many Credit Unions also provide services intended to support community development or sustainable international development on a local level.

Credit Unions have played an important role in Irish society since the 1950s. The Irish Credit Union movement has achieved one of the highest membership penetrations of any country, with over 50% of the Irish population now holding membership. Credit Unions in Ireland today vary dramatically in size, membership and in the range of services they o er. However, they all share a basic philosophy and set of principles.

Ireland in the 1950s could have been a third world country. There was high unemployment and poor housing, which led to sickness and malnutrition. State unemployment benefits were low and did not last indefinitely, leaving many families in abject poverty, relying on loan sharks.

There are no hidden fees or transaction charges

Perspective

Banks and other financial institutions did not advance credit without substantial collateral or guarantees; you had to be a homeowner in order to get a loan and very few people owned their own homes in the 1950s.

Nora Herlihy (a teacher of under-privileged children), Sean Forde (a baker) and Séamus P MacEoin (a civil servant) decided to do something about it. They recognised the root of the problem as the scarce availability and poor management of money and resolved to identify a system that would allow people to gain more control over their finances.

In 1956, a government sponsored savings campaign prompted a co-operative in Dun Laoghaire, County Dublin, to set up a thrift society, which was reformed as the Dun Laoghaire Borough Credit Union – the first in Ireland.

The movement advanced through the 1960s in a series of spectacular leaps. By the end of the decade, 180,442 people had joined 336 unions spread throughout the 32 counties and their savings amounted to almost £9 million. Most members of Credit Unions are savers rather than borrowers, which can be a problem for their viability.

I was a member of Midleton Credit Union in County Cork. Their motto is Not for profit. Not for charity. But for service. Midleton has 18,000 members and provides a full range of financial services to members. Midleton Credit Union was formed in 1968 solely to help its members and aims to o er fair and reasonable rates on savings and loans. It provides loans for cars, holidays, Christmas, weddings and just about anything one can persuade the manager to agree to. Payment periods range from one to five years. Loans are insured at no direct cost to the eligible member. Repayment protection insurance is available as an optional extra. There are no hidden fees or transaction charges. A loan of €10,000 repaid monthly over five years would mean monthly payments of €209.82. The typical interest rate of 9.5% is high compared to the 2% on my Bank of Ireland mortgage, but I found the Credit Union's flexibility helpful in the refurbishment of my derelict cottage and the refurbishment of my very mouth when I had extensive and expensive dental treatment. Repayments are calculated on the reducing balance of the loan. This means smaller interest repayments as you repay your loan. Repayment terms can be adjusted to suit your particular circumstances. You can repay the loan earlier or make larger repayments than agreed with no penalty. Additional lump sum repayments are accepted with no penalty.

It is ironic, in the light of what I have written in these pages about the shortcomings of the Central Bank of Ireland as a financial regulator, that it should publish a report critical of Credit Unions. In Credit Union Prism Risk Assessments, Sharon Donnery, Registrar of Credit Unions, wrote: "Regrettably, we found the majority of credit unions we engaged with needed to make significant improvements. ...We also noted in a small number of cases certain attitudes and behaviours indicative of an unwillingness to comply with legal and regulatory requirements and associated absence of appropriate risk management systems and compliance programmes."

Ms Donnery pontificates: "As with all other financial institutions, they depend on public confidence for their success and members need to be assured that their savings are safe."

Despite the shortcomings of the Central Bank, three executives of Anglo Irish Bank are each facing 16 charges of illegal activity.

Research indicates that Credit Union customers are more satisfied with service quality than bank customers are. A survey showed that Credit Unions rate significantly higher than banks on 11 of the 14 service quality questions: access; courtesy; communication; credibility; security; empathy; tangibles; basic service; fairness; fixing mistakes; and guarantees. People between the ages of 18 and 34 have a high regard for the community-owned lenders. Four out of 10 young adults are members of Credit Unions and half of this group would consider a loan of around €6,300. Young adults see Credit Unions as more understanding than banks.

In Sri Lanka, the World Council of Credit Unions is strengthening Credit Unions in areas a ected by the conflict with the intent of restoring financial stability and a broader sense of security.

It would seem that in Ireland the public, chastened by the antics of the casino banks, have more trust in Credit Unions than banks, whatever Ms Donnery might say. Is there a lesson for the rest of the world? 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. Credit Unions bring a measure of democracy, cooperation and mutuality to the ugly world of finance. They are an example of what biologist EO Wilson called "the delicate web of reciprocity". ■

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BARCLAYS BANK'S TOTAL BONUS POOL FOR 2013, UP 10% FROM THE YEAR BEFORE

BARCLAYS PLAN TO CUT

12,000

STAFF THIS YEAR

OVER

50%

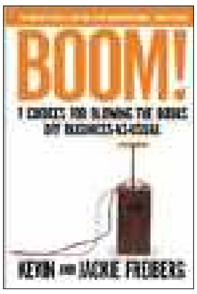
OF THE IRISH POPULATION HAVE MEMBERSHIP IN CREDIT UNIONS

By
Dr. Kevin Freiberg & Dr. Jackie Freiberg

Lead with Gratitude and Inspire the Gift of Perspective, Potential, and Productivity

Encouraging employees to express gratitude can boost morale and improve corporate competitiveness

Complaining is a dead-end road; it feeds depression and hopelessness. No one (even your therapist) wants to hear about how unfair you think things are or how life is stacked against you. Leaders who embrace and inspire gratitude don't run to their bosses, human resources, or whoever will listen every time they encounter a problem. They gravitate toward people who, like themselves, are truly interested in and hopeful



about fixing things and making their little corner of the workplace better. The next time you find yourself complaining or you find yourself participating in a dialogue where others are complaining, ask yourself (or be courageous and ask them),

"What is the ROI here, what's the return on investing in this discussion?"

"Is this conversation adding any value?"

Want to know the fastest way out of being

Perspective

a complainer and feeling sorry for yourself? Gratitude. Gratitude stems from acknowledging that where we have arrived didn't happen solely on our own. Do YOU take credit for all you have? Who among us is not "drinking from wells dug by others?" Yet, we live in a world that screams, "I owe nothing, but I have a right to everything!" And so we forget by taking what we have for granted and living as if the world owes us everything.

An ungrateful heart loves to complain and always sees what is wrong with the world. An ungrateful heart cynically makes nothing out of something. Gratitude, on the other hand, sees what is good and right with the world and usually finds something meaningful in nothing. Leaders who see their team through the lens of gratitude will always see the untapped potential in people and inspire them to achieve what cynics think is impossible. We've worked with the U.S. Marines for more than 20 years, and we are always inspired by their example. A motto the Marines live by is this, "The di cult we do immediately, the impossible just takes us a little longer!" How's that for tapping potential and inspiring achievement and accomplishment! Perhaps more great things would happen if more leaders and their teams embraced this motto as well.

Without a doubt, gratitude fuels potential and transforms our perspective. When you are in awe of what you have, the immediate response is a deep sense of appreciation: "Whom do I repay?" "What does it mean to give back in life?" "How can I be a better steward of what I have?" These questions leave little room for envy, entitlement, or complaint. It's hard to complain when we are truly thankful, but it's hard to be thankful when we think we are entitled and take so much for granted. American philosopher Eric Ho er said, "The hardest arithmetic to master is that which enables us to count our blessings." So you didn't rock the world today, maybe you just changed it slightly. Or, if you didn't change it even slightly, at least it didn't get worse.

We have been able to work with people in some of the most admired companies in the world. Yet, we are constantly amazed at how many people working in great companies complain about what they DON'T have. On more than one occasion we have felt compelled to say, "What you have in terms of culture is incredibly special. You better protect it and promote it with your life." Sometimes we wished we could o er them a sabbatical and set them up in another

The discipline of being grateful will have a powerful e ect on you, your team, and your productivity

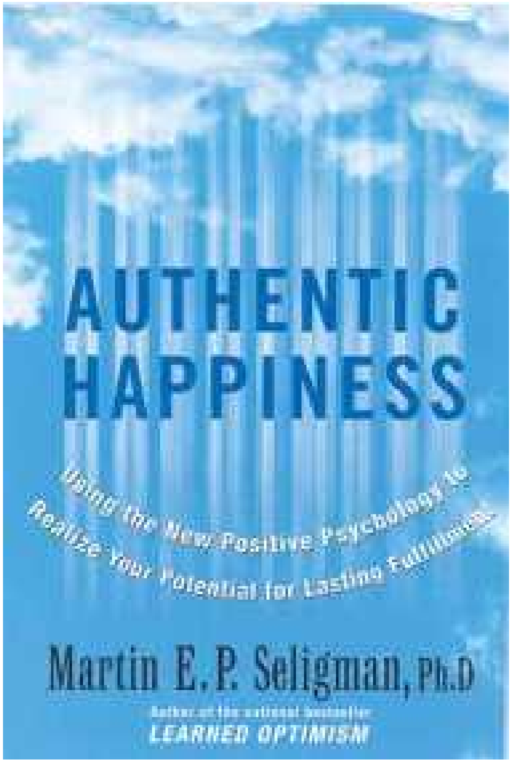
work environment. After a year, we would send them back. Perhaps this would give them a deeper sense of appreciation for what they actually have. In reality, the grass is rarely greener.

Look, we are not big on funky exercises that promise a lot and deliver a little. But, if you want to become more grateful, tap potential, shift perspective, drive productivity up, and give complaining a permanent rest—try making a daily list of ten things for which you are grateful or try keeping a gratitude journal. Why not give gratitude journals to your team? The discipline of being grateful will have a powerful e ect on you, your team, and your productivity. This daily discipline has the potential to radically transform your perspective about life and work. Whether you decide to work with a journal or a list, force yourself and your team to reflect upon the good in your life. When you make your entries, don't forget to consider the pain and frustration you have avoided, as well as the blessings you have received. Commit to making your entries every day for the next 30 days.

Is there a compelling case to be made for doing this? Yes! In our book BOOM!, we noted that people who keep gratitude journals on a weekly basis are more alert, enthusiastic, energetic, attentive, and far more determined than those who focus on the hassles or neutral events in their lives. Those who replace bitterness and resentment with gratitude report higher levels of fulfillment, vitality, and optimism as well as lower levels of stress, frustration, and depression. They exercise more regularly, report fewer physical symptoms, and are more likely to live longer than the ungrateful. Does this sound like a key strategy for becoming more productive, developing a better perspective, and tapping into your true potential at work? We think so! And the good news is—it's free!

In his book Authentic Happiness, Martin Seligman describes another exercise that has life-changing potential. Seligman asked students in his Positive Psychology class at the University of Pennsylvania to select one important person from their past who had made a positive di erence in their lives and whom they have never properly thanked. Each student was to bring this person to class and present a testimonial—just long enough to cover one laminated page—to the unsuspecting guest. Seligman called it "Gratitude Night". You know what happened . . . People got choked up, and the fear of embarrassment gave way to tears of joy and appreciation as the students found a vehicle for expressing

Perspective



AUTHENTIC HAPPINESS BY MARTIN SELIGMAN.

how thankful they were for those who meant the most to them. At the end of each presentation, the laminated version of the testimonial was given to the guest. Written evaluations at the end of Seligman's class indicated that "Gratitude Night" was not only the high point of the class, but for many of the students and guests, one of the greatest nights of their lives.

Are you looking for a way to close out the year on a high by celebrating and thanking people for their contributions? What's keeping you from identifying several people at work and doing the same thing? What's keeping you from initiating a monthly, quarterly, or bi-annual gratitude luncheon? If you move on this idea, Seligman suggests several criteria:

1. Choose the person because of your deep-felt gratitude, not because of romance or an opportunity for future gain.

2. Take your time (several weeks is not uncommon) and be thoughtful in the words you choose.

3. Do it face-to-face. Writing a letter or making a call will not have as much impact.

For many of us, gratitude does not come naturally; it must be cultivated. Will conducting a gratitude audit be easy? Hardly

4. In making the appointment, do not tell the person what it is about, only that you want to meet.

5. Give a laminated version of your testimonial as a gift.

6. Let the recipient react without being rushed, then spend some time reminiscing about the significant events that brought you to this point.

Gratitude is a sign of wisdom and maturity, a hallmark of confident humility. Show us a corporate culture infused with gratitude and we will show you a culture of civility, compassion, and courtesy. It is a culture where people are not weighed down by the toxicity of complaining, a culture where people find the freedom to soar. We are so very grateful for our work with companies like Southwest Airlines, Sundance Resorts, Wells Fargo, and Ernst and Young. These are not just consulting or writing projects, nor are they just speeches or events; they are esteemed clients who have profoundly influenced us, they are role models of wise, mature, and gratitude-inspired cultures. All of these companies work deliberately and strategically at promoting and protecting a culture wherein gratitude is deeply rooted.

For many of us, gratitude does not come naturally; it must be cultivated. Forcing yourself to make a daily list of your blessings is essential to making this practice a habit. Will conducting a gratitude audit be easy? Hardly. But when you're having an extremely di cult week, it is exactly what you need. When you feel like you're in a dead-end job, your boss is dysfunctional, your colleagues are biding time, work is killing you, you're frustrated and fed up; the last thing you'll want to do is write down the things for which you are thankful. But that's the point of developing this daily discipline. It teaches you to look for what IS working in your life and trains you to focus forward. It's paradoxical. The very thing you need to do most to get out of a funk and stop complaining is the very thing you feel least like doing. This is why inspiring a spirit of gratitude must be based on a visceral decision of the will and not on a FEELING. Just do it!

Dr. Kevin and Dr. Jackie Freiberg are owners of San Diego Consulting Group, a consulting firm dedicated to equipping leaders for a world of change.
www.freibergs.com

I always notice him in the morning. His beaming smile, soft voice and withered hands. The vadé seller on the 7:45 a.m. train. For the longest time that's all he was to me. Come rain or sunshine, he is always there, traversing platforms and inching his way through the corridors of each carriage. He smiles at each and everyone who cares enough to glance at him. On a somewhat quiet day, I found myself

sitting next to him. Out of simple curiosity I asked him about his life - where he comes from, what his typical day is like and why he does what he does, especially at his age. I listened to his story. Two hours later, after missing my stop, I had unexpectedly entered his world. With all the ups, downs, twists and turns, I started to understand the purpose of his life. In front of me was a man who so strongly believed in providing for his family that no job was too hard and no sacrifice too great. It was a story of one man's commitment and perseverance. From that day on, he was no longer the vadé seller on the 7:45 a.m. train. He was Sarath seeya - my friend.

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By
Shamindra Kulamannage

A Predictable Fading, But...

The challenges facing highland tea plantations will force their decline. How they respond to these will determine the disruptiveness of the decline

A hundred and fifty years after being first planted in Ceylon and making a gigantic contribution to the economy since; the tea industry now is gradually fading. In the next twenty years, growing tea, especially in the highlands where private sector controlled plantation firms dominate, will become increasingly unviable because of rising costs and unavailability of labour. Highland plantations may not disappear altogether but their footprint and the economic contribution will shrink relatively and in absolute terms over the next couple of decades.

Industries fade and new ones emerge as countries grow. It's the least competitive ones where value addition is sparse that are culled first. Although they may not fade away completely, their low returns will make them unattractive for investment. Investing in higher value addition and innovation can however stall this process. Unless an industry anticipates, plans for and addresses challenges surrounding an economic structural change that a ects its future, the resulting unraveling would be disruptive. This is the challenge facing tea growers here.

Averages can often be misleading as they are in the case of the tea industry

Everything from the reversal of quantitative easing in the US, the lingering impacts of the Arab Spring to Russian intentions in Crimea will impact tea prices. Ninety five percent of the Lankan tea crop is exported and many factors, far beyond the control of growers here, weigh on international commodity prices.

On the face of it, the tea industry is doing just fine. Last year, 2013, it set a new export record of $1.5 billion. Exports have exceeded a billion dollars for five years consecutively. Over decades a kilo of tea was sold for a $2 average at the auctions although its local currency price increased because the Rupee weekend. However since 2009 demand drove prices above $3 consistently. In 2013 the average auction price was $3.5 a kilo.

However averages can often be misleading as they are in the case of the tea industry. Tea grower fortunes are sharply split between the Regional Plantation Companies (RPCs), which have

Perspective

most of their tea lands in the central highlands of the country and small holders, who grow most of their tea at lower elevations surrounding the central hills. To understand the challenges facing tea and plantation companies that grow it, it's important to separate these from the RPC's other crops like rubber and oil palm and also from the small holder-controlled tea plantations, usually someone's back yard.

Sri Lanka's biggest tea estates are managed by 20 listed and some government-controlled Regional Plantation Companies created in the early 1990s by combining state-owned estates growing tea and rubber. The government-owned estates were leased for 50 years to the newly created RPCs. When these RPCs were privatized and listed in the Colombo Stock Exchange twenty years ago, many of Sri Lanka's most successful private firms invested in them.

The challenge that has so far bewildered the RPC's - that produce 30% of the crop – is twofold. Firstly its people and secondly it's the financial unviability of growing tea in the highlands. For decades now the millions of people who live in plantations have been unwilling to work there, because of low pay, difficult working conditions and the ignominy of being a tea plucker. The RPC workforce has shrunk 40% in the last twenty years from 345,000 at the time of privatization to 208,000. Most of the existing workforce is due to retire in the next twenty years while the young would rather do anything else than pluck tea. In 21st Century post war Sri Lanka the industry's popular refrain that it cares for workers 'from womb to tomb', sounds suspiciously like a recruitment slogan for the slave trade.

Many estates already suffer from a shortage of workers. In the next two decades – if Sri Lanka's economic growth accelerates – jobs in the hotel, construction and other fast growing sectors will be far more attractive for educated young people living in plantation areas. Highland tea plantations don't have an effective enough strategy to deal with its diminishing labour force other than incremental working condition improvements which haven't successfully stemmed the exodus in the past. Combined with performance incentives a plantation worker's daily wage is Rs620 whereas even low skilled work outside the estates can earn twice as much.

The second challenge is the financial unviability of tea as a crop in the highlands. Seventy percent of RPC costs are on account of labour and the plantations aren't able to meet demands

Most of the existing workforce is due to retire in the next twenty years while the young would rather do anything else than pluck tea

THE RPC WORKFORCE HAS SHRUNK

40%

IN THE LAST TWENTY YEARS

for a further pay rise. Estate revenue is dependent on the Colombo auction price of tea which here is the highest in the world. Prices of Kenyan and Indian tea, the other two major tea exporters (most Chinese tea isn't exported), are $0.5 to $0.7 less on average, than a kilo of Sri Lankan tea. People in the Middle East, the former CIS nations and elsewhere will drink more tea as their economic circumstances improve, driving up the commodity's price globally. However thousands of acres of tea are being planted in Africa in fertile land where productivity is higher. These new producers will supply much of the increasing demand as has been happening over the last few decades.

By 2012, Sri Lanka's tea production had roughly doubled from 1990 levels, but its share of the global crop had declined to seven percent from 21% in 1960. China, India, Kenya and other Asian and African countries grabbed most of the new consumers in the now annual 4.7 billion kilograms a year tea market.

Land productivity in the lowlands, where tea is a relatively new crop is two to three times higher than in Sri Lanka's highlands. This is because lowland tea bushes are young – most of it planted during the two decades – and these lands have never before been used for agriculture. In the two decades to 2011 lowland tea acreage has doubled to 110,000 hectares. In roughly the same period highland tea acreage had halved to 41,000 hectares.

Tea plantations have generally taken few risks or innovated. Few plantations have been willing to leave their comfort zones to build their own brands or block out sections of their estates for their employees to farm on an out-grower model. These may offer some solutions to the challenges. For an industry used to incremental change the challenge of the transforming economic landscape as Sri Lanka moves upwards in the middle income rankings will come as a shock. Estates in the highlands will run short of workers, be forced to automate in an industry where new investments are unattractive due to their low returns.

It shouldn't come as a surprise that uncompetitive industries, even ones over a century old, will fade so that resources like human capital can speed the growth of other more competitive ones. It's up to the tea industry leadership to determine if in their fading it will go kicking and screaming or with a dignified air about the decline. Evidence suggests the tea industry, especially in the highlands, is nearing its end.

MERVYN KING: YOU NEED INTEGRATED THINKING FROM INPUT TO OUTCOME

BY **VINOD MOONESINGHE**

South Africa is a pioneer in Integrated Reporting and Professor Mervyn King one of its leading advocates. IR is the new form of corporate reporting that goes beyond the numbers and looks at business in a broader sense, telling its story in a way more easily understood by ordinary people, or the shareholding public. It measures a company's total value, taking into account how it creates value with positive impacts on society and environment and how it could avoid destroying value by acting negatively.

MERVYN KING, CHAIRMAN OF THE INTERNATIONAL INTEGRATED REPORTING COUNCIL, AND A LEADING ADVOCATE OF INTEGRATED REPORTING

30%

OF UNILEVER FACTORIES OPERATE ON RENEWABLE ENERGY

Companies which do Integrated Reports have seen their share prices go up. King was in Sri Lanka recently for the 2014 South Asia conference on Financial Reporting for Economic Development that brought together regulators, policy makers, business leaders, academics and professionals from across Asia to discuss the state of financial reporting. In this interview King tells how IR emerged and its importance.

Originally a justice of the Supreme Court of South Africa, Dr Mervyn Eldred King resigned, as he says cryptically, "for a number of reasons." An opponent of Apartheid, he supported Helen Suzman, the sole non-racialist democratic liberal in South Africa's Parliament. In 1981 he became Chairman of Operation Hunger, which was dedicated to feeding some 2 ½ million children, mainly in the rural areas where the hardship was greater.

He knew Nelson Mandela from before he was jailed, and kept in touch with him in prison via Mandela's daughter, who worked in his organisation. After Mandela's release, King was one of 12 invited to dine with him.

The sage advice of Adrian Cadbury is the secret of South Africa's world **lead in the field of Integrated Reporting**

- Mervyn King

Since then, he has become a leading advocate of Integrated Reporting. King is Professor Extraordinaire at the University of South Africa on Corporate Citizenship, Honorary Professor at the University of Pretoria and Visiting Professor at Rhodes University. Today, in addition to being Chairman of the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs advocating communication about value creation in corporate reporting, headquartered in London, he also chairs the Asian Centre for Corporate Governance in Mumbai. Based in Johannesburg, he jokes that he 'lives in an aeroplane', because there is always some event he is involved in somewhere in the world.

He is very obviously enthusiastic about Integrated Reporting, the fascinating history of which he relates, ("a long story" he chuckles), starting with the end of Apartheid, around 1992. This was as South Africa headed towards democracy, and the Johannesburg Stock Exchange, the Society of Accountants of South Africa, the Law Society and the Institute of Directors, together felt the need for guidelines on corporate governance. Because of unequal opportunity under Apartheid, the majority of citizens had never been in the economy. Now there was to be democratic equal opportunity, but the special circumstances required special solutions. At the urging of Mandela, King agreed to chair what became known as the King Committee on Corporate Governance.

King is of the opinion that the sage advice of Adrian Cadbury is the secret of South Africa's world lead in the field of Integrated Reporting. Cadbury, responsible for the Cadbury Report on Financial Aspects of Corporate Governance, told King that he had himself made an error in disbanding his committee, because afterwards others, such as Turnbull, Smith, and Greenbury, had to be appointed. These did not have continuity, which is vital since corporate governance is dynamic, and global events such as the Global Financial Crisis or even events happening in one's own country can have a huge impact. Cadbury advised King to keep his committee going, which advice was followed: his committee has met in every quarter since 1992 and stayed up to date on what is happening in the world, which kept it a step ahead of the rest of the world.

The committee came out in 1994 with its first report on corporate governance – which became known as King I — advocating that the company had not just to concern itself with the shareholders, but with many stakeholders.

A company might certainly take a decision that will benefit one stakeholder more than another, but it should be explained that it was in the interest of the company, of all stakeholders. That became known as the 'inclusive approach' to governance, as opposed to the 'exclusive approach', the hitherto hegemonic attitude of shareholder primacy – in which, as King describes it, the company is a castle surrounded by a moat of shareholders, and would occasionally let down the drawbridge to let the other stakeholders come on board.

"We were brought up," he says, "on the theory of shareholder primacy: the shareholder was the only or main stakeholder. Of course this doesn't apply because there are many stakeholders that make it possible for a company to carry on business."

Businesses require labour, because without it no amount of capital will make money. It requires society, because society buys the business' products: it is part of society, it is not apart from society. A business is interdependent with the resources it uses. These include the manufactured and financial resources added according to financial reporting standards, but also other capital resources which are not, such as human capital, intellectual capital, natural capital – many companies use natural capital without owning it, such as air and water – and of course the country's infrastructure, for example their lorries run on the public highway.

King explains that a company has to learn what the legitimate needs, interests, and expectations of the stakeholders are, and have to be taken into account in the decision-making process so that management can manage on a more informed basis, and the board of directors can understand better how to meet those expectations. This should, logically, make for better judgement calls, and so actually benefit the shareholders in the end.

Towards the end of the 20th century, the realisation dawned that financial reporting was not telling the whole of the story of 'the state of play'. An analysis of the companies listed in the great stock exchanges of the world showed that only about 20% of the market capitalisation of companies was represented by net asset value in the balance sheets according to financial reporting standards. According to King, directors were not making stakeholders aware of what went on in their companies, and why the market was, through demand and supply, fixing values that were 80% above the financial and manufacturing assets which were shown on balance sheets.

This disparity led to the assessment that there should be standards for reporting on the non-financial aspects, and that developed into the realisation that business is at the junction of the economy, society, and the environment and actually has an impact on them. The biggest users of natural assets are in fact organisational entities, be they public companies or private companies. So the question arose about value creation.

"'When I was a young corporate lawyer," he says, "young accountants, young business people were taught value depended on cash flow. So the question was the present value of expected future cash flows, but no one thought about how the cash flow was made, was created."

However, it was a very changed world which was moving into the 21st century, especially since it had gone through the population explosion of the 20th century: there were now 7 billion people on the planet and every night 1/5th of them went to bed hungry, and 1/5th were without potable water. In a few decades the Earth would have another two billion people.

"I could put up a sign saying 'no vacancy'," quips King.

Today, value is a di erent concept, as companies deal with declining natural assets, and they must consider how the cash flows are created, because they might well go out of business if they do not. If they don't apply their minds, he thinks, our grandchildren certainly won't see the 22nd century: "The whole world will be like Beijing."

"Meanwhile," he says, "we have natural assets diminishing, because you can't grow coal, you can't grow gold, you can't grow iron... So if you think you can just carry on as usual, then welcome to stupidity."

This was the discussion going on at the turn of the century. In 2002, in the context of the Johannesburg Earth Summit, the King Committee on Corporate Governance revised its report. The revision, known as King II, recommended sustainability reporting by companies; they were to report on their non-financial aspects, on

Integrated thinking revolves around the question of true value, how a company makes its money, and how that impacts **financially, socially and environmentally**

- Mervyn King

how their business was impacting socially and environmentally and the nature of the quality of their governance. This became a requirement for listing on the Johannesburg Stock Exchange.

By 2009, King's thinking was absolutely clear: there was an interconnection between the resources used by a company and its relationships with its various stakeholders, the two could not be divorced. In the next revision, King III, governance, strategy and sustainability were integrated and made applicable to all entities, public, private and non-profit.

Integrated thinking, he declares, revolves around the question of true value, how a company makes its money, and how that impacts financially, socially and environmentally. Identifying the positive aspects, and how to enhance them; identifying the negative aspects and how to eradicate or ameliorate them.

He gives an example, the business of dyeing fabrics. The toxic chemicals used to dye fabrics should be treated before going down the waste, which costs money. Obviously, the bottom line will go up if the chemicals just go in the waste without spending money on treatment. However, those chemicals enter the riverine system, killing fish and other aquatic life, and costing society

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WORLD BODIES ARE ON THE INTERNATIONAL INTEGRATED REPORTING COUNCIL more money to clean the water. So society and the environment end up, in fact, subsidising the business. A hypothetical example, the price you pay for a hamburger. "You've heard of the free economy," he states, "well I'll tell you what's free – the subsidisation by society and the environment in the cost of that hamburger. That's built in, but you're not paying for it."

The price you pay is not the true cost of the hamburger, because the cow has been force-fed with antibiotics to keep it free of disease and growth agents to make it put on weight rapidly; it is transported to the abattoir in a diesel lorry, which has polluting emissions.

Value today is not just a monetary value irrespective of how a company makes its money and its products, but the total value, taking into account how it impacts positively on society and environment (which adds value) and how it acts

> The big shareholders are no longer wealthy families, but pension funds, superannuation funds,
> **the money belonging to people on the street**
> - Mervyn King

negatively (which destroys value). Obviously this value still must take into consideration the net profit, but it is critical how that profit is made.

Some concrete examples: Unilever has got about 30% of their factories on renewable energy, all their products are packaged in recycled material, they are re-engineering all their products and they have almost no waste or landfill. Now they are beginning to get real benefits from these positive measures, and are starting to outstrip their major competitor, Proctor and Gamble. Danish company Novo Nordisk has been doing this integrated thinking for 7 years and they are also outstripping their competitors.

King articulates what he means: "Integrated thinking is accepting that you use resources, that you have ongoing relationships with stakeholders, that these are interconnected and this creates your business model. How does the company make its money (not how much money is made) – risk management, governance structure, strategies – it has an impact financially, socially and environmentally. And then it has a product, an output. But it doesn't stop there because the output goes into society and has an impact on society and the environment. So you have got to think on an integrated basis right from the input to the outcome."

Another concrete example: the Coca Cola Company. Nine years ago, he says, the Coca Cola Company realised that they couldn't function without water, the scarcest natural asset on planet Earth. So they started their long-term strategy of water re-use, replenishment and recycling. Coca Cola spent a hundred years building their brand, making it recognisable instantly, even by aroma. It was then the best brand in the world, as Apple is today.

Then, mounting criticism by civil society of Coke as the reason for child obesity caused sales of Coke to plateau in America. So Coca Cola began a new marketing campaign on the 13th May 2013: they would not advertise to children under the age of 12; they would put nutritional labelling on all their containers, cans and bottles; they would reduce the calorie count of their products as much as possible; and they would encourage exercise for children, even create exercise yards, wherever in the world they had a bottling plant.

"So you see," explains King, "here is a company which, for over a hundred years, had focussed just on creating its products, not seeing that its product itself had an impact and could have an impact on its business, on its bottom line profit. Now it looks at that impact, and that's called integrated thinking."

It is not su cient, however, for a company to think on an integrated basis. It needs to report to its shareholders, and that information also goes to all the stakeholders. The language of international standard reporting is generally unintelligible to most people ("like you trying to read Japanese"). Only one in a thousand, he believes, will understand financial reporting standards – and many accountants do not keep abreast because of their complexity and changeability.

He makes what he himself calls a "glib but very profound statement", that in order to be an accountant you must be understood. The stakeholders must be able to comprehend what they are being told. Where does a company get its money? The big shareholders are no longer wealthy families, but pension funds, superannuation funds, the money belonging to people on the street. The money that banks lend to companies belongs to people on the street, who deposit it in banks. "Who supplies labour to the company?" asks King, "People on the street. Who buys the product? People on the street."

The integrated report is just the company telling its story in ordinary, clear and concise language so that it can be understood. A financial report, done according to financial reporting standards is still required, because the stakeholders need to be aware of the numbers. However, in the information age, it is possible to have the more detailed information online, while the

> "You know, governance was never intended to be a mindless quantitative exercise: I've got an audit committee, tick, I've got a remuneration committee, tick, I've got non-executive directors, tick. It is about quality, it is about the honest application of mind to the company and to act in its best interest for maximisation of total value – see I didn't say book value I didn't say economic value – total value. So integrated reporting is part of governance. It is critical that there is good quality governance but not this mindless 'do this', 'do that', 'do the other', you know a whole set of rules. Because then a company spends a lot of time on conformance instead of performance, which is a social and economic need."
>
> MERVYN KING

report itself explains in easy language in 30-50 pages profit, loss, expenses, and sustainability.

In November 2009, the International Federation of Accountants (IFAC) and the United Nations Environmental Programme (UNEP) asked King to address a meeting in Geneva under the Chatham House Rule (participants are free to use the information received, but may not reveal the identity nor the a liation of any other participant). At that meeting, agreement was reached in principle that the answer was integrated thinking and the integrated report, as financial reporting by itself didn't fit the purpose since it "wasn't telling the story".

Meanwhile Charles, Prince of Wales had set up the Accounting for Sustainability (A4S) trust in 2005, with Sir Michael Peat of the famous auditing firm Peat Marwick (which merged with KMG to found KPMG) as chair. The Prince was concerned that the royal household was investing in companies, the reports of which did not set out the impact they had on British society and the environment.At that time King was chairman of the Global Reporting Initiative (GRI) in Amsterdam, which was setting standards for non-financial aspects of reporting. Sir Michael invited him to tea and asked his advice on this problem. King responded that the key was Integrated Reporting, which would explain, in comprehensible language, how the non-financial impacts were embedded along with the financial impacts into a company's long-term strategy, so the reader could make an informed assessment whether the business of that company would sustain value, long-term.

In applying integrated thinking, corporate social responsibility (CSR) is incorporated into strategy, considering how a company makes its money and how its product impacts, positively and negatively, on society and the environment; enhancing the positive aspects, and eradicating or ameliorating the negative aspects. On the other hand, integrated thinking doesn't replace sustainability because the sustainability issues need to be identified. Nor does it replace financial reporting because money is the only metric. As for the Triple Bottom Line, the company operates in a triple context, financially, socially and environmentally, but reports in monetary terms. Integrated thinking incorporates all that in its strategic philosophy.

As a result of this discussion, the Prince convened a meeting of the leaders of corporate reporting: King as chair of GRI, Sir Michael as chair of A4S, the chairs of the International Accounting Standards Board (IASB), of the IFRS Board of Trustees, of the Financial Accounting Standards Board (FASB) of the USA; the presidents of the World Bank, the International Organization of Securities Commissions (IOSCO), the Institute of Internal Auditors; the President/Chief Executive of IFAC; the world chairs of the Big Four auditing firms and representatives of NGOs such as the World Wildlife Fund. The result of this meeting, at which (King thinks, surprisingly) both the FASB and the IASB agreed that Integrated Reporting is the future, was that the International Integrated Reporting Council was formed. Since then, several other world bodies (48 in all) have joined.

King sees increased use of Integrated Reporting in the future. He avers that it is acknowledged, amongst all the institutional bodies that in the world dealing with corporations and corporate law, that corporate reporting as has been known since the Great Depression no longer fits the purpose; financial reporting simply does not tell the whole story, that a new form of reporting is necessary. Since the turn of the century, many new methodologies have been tried out, such as reporting added value statements, broad business–based reporting, but none have gained traction. A system is required that makes business sense. Integrated Reporting is not a do-good factor, it is not mere camouflage. The research and communications company Black Sun discovered that companies which used integrated thinking and did Integrated Reports have increased their market capitalisation; they are able to raise capital more cheaply and are able to borrow more easily, because they provide more information than a company reporting only on its financials, on which a bank can measure risk.

Also, King considers, companies which practise this integrated approach are attracting the Net Generation, the desired age cohort of i-tech-savvy young people who are now coming out of universities. They do so because the bright young mindset wants to distinguish between companies which are actually being subsidised by society and the environment, and those which have applied themselves to the problem of the 21st century, between 'business as usual' and 'business as unusual'. They do not want to be with companies that will go out of business, and they do not want to add to the crisis the planet is in – they want to help solve it.

"The other thing is" King chuckles, "that if you are not operating as a good corporate citizen, then society reacts: Arab Spring, the Wall Street occupiers, St Paul's Cathedral."

DHAMMIKA NANAYAKKARA, SUPERINTENDENT OF PUBLIC DEBT OF THE CENTRAL BANK OF SRI LANKA

Portrait

Managing a Rs6.7 tn Debt Portfolio

Dhammika Nanayakkara, Superintendent of Public Debt of the Central Bank of Sri Lanka, is one of 50 Chartered Accountants working in the bank regulator whose governor himself is a CA. Nanayakkara has the task of managing Rs6.7 trillion in public debt, a not inconsiderable responsibility given the multiple risks involved and its impact on the economy. In this interview, he describes how accountancy training helps him perform his job and the issues concerning government borrowing.

BY **ROHAN GUNASEKERA**

Dhammika Nanayakkara hails from a very rural area in Anuradhapura, having studied at Central College, Anuradhapura and going to the University of Sri Jayewardenepura in 1986. It was at university that he became aware of the chartered accountancy profession when his batch mates began talking about the qualification. This was a time when student unrest and politics led to frequent interruptions of university lectures. Realising accountancy could be an alternative path, Nanayakkara opted for that as well. He got through the licentiate exam in 1987 and two years later completed the final exams while in his third year in university.

Joining the Central Bank was a dream Nanayakkara had while still a school boy, having read the bank's annual reports as a commerce student and growing aware of its contribution to the economy as the country's apex financial institution. Soon after graduation he joined Hatton National Bank as a management trainee, one of six recruited at the time. By then he had already sat for the Central Bank entrance examination. When the results came, Nanayakkara found he had topped the batch - coming first in the open competitive exam for selection to the Central Bank. He quit HNB and joined the Central Bank in March 1993. The switch led to a break in his practical training for the Chartered Accountancy which delayed his getting membership of the Institute of Chartered Accountants of Sri Lanka till 2004. Nanayakkara recalls how, along with other students, he had to lobby the ICASL, through submissions to its governing council, to get the Central Bank recognised as an approved entity for practical training. That paved the way for a lot of Chartered Accountants and CA students to join the Central Bank. “Since then we’ve seen a new generation coming in” says Nanayakkara.

“A lot of youngsters have joined the Central Bank while doing their Chartered Accountancy studies. There’s a two-way benefit. The institution benefits by having a lot of Chartered Accountants so its functions can be performed in a very professional and precise manner, and the individuals themselves get to work in one of the best institutions in the country.”

Despite having held well paying overseas jobs during studies or while working as a consultant, Nanayakkara always opted to come back, feeling he owes it to the country and institution, having benefited from free education and Central Bank training. For instance, he worked in Oman for three and a half years on secondment from the Central Bank, first in Oman’s central bank as a senior bank examiner and later as a consultant for training Omanis in bank supervision. He was earning nearly $15,000 a month when he opted to come back.

Nanayakkara, who has a Masters degree in financial derivatives and treasury operations from the American University in the United States, became the Superintendent of Public Debt on January 1, 2012. He also did a stint as chief dealer at the Central Bank, responsible for managing the country’s foreign reserves.

“I’m very happy that I’m managing the country’s biggest portfolio here - managing the public debt of over Rs6.7 trillion,” he says. “We’ve managed to maintain interest rates at low levels despite that fact that the government needs financing for its budgetary requirements - cash flow requirements. Also, we have reduced the volatility in the domestic market interest rates and, because of the stability we managed to bring in, a lot of foreign investors now have real interest in investing in Sri Lankan financial products.”

He feels that it was because of his Chartered Accountancy he managed to join the Central Bank, it being a qualification required by the banking regulator, as he was still completing his university education at the time.

“The second factor - because of my chartered accountancy background I was posted to the bank supervision department. Today that exposure and my professional experience helps me perform my duty in an e ective manner.”

Of course, the degree also helps but the Chartered Accountancy not only provides theoretical knowledge but practical training as well, including work experience with others, looking into complex issues.

“My Chartered Accountancy helped me secure a position in the central bank of Oman also, 10 years ago. That again helped me gain a lot of experience. If you compare the Sri Lankan financial markets with the Omani financial markets, they were well ahead at that time. Today, of course, we are on par with other countries.”

He feels the CA training provides a particular kind of professionalism. “Unless you demonstrate a certain professional calibre you can’t become a Chartered Accountant,” Nanayakkara stresses. “You not only need to have the knowledge but need to know how to use that knowledge - application of that knowledge in solving problems. That’s provided by the Chartered Accountancy syllabus and helped me a lot in my Central Bank career.”

The risks emanating from the debt portfolio he manages are huge. “If the government wants to borrow and we go to the market without a plan it’s going to have a huge supply pressure and then interest rates might shoot up” he explains. “You need to manage the debt portfolio in such a manner that you will not disturb the market’s smooth functioning, because we set the benchmark. This is the risk-free interest rate.

All other financial instruments traded in the market - like a loan or investment in the stock market - are going to be based upon the benchmark rate. So we need to maintain discipline and execute a carefully articulated borrowing programme to finance the government’s requirements. Otherwise it’s going to a ect the market interest rates. Then you’ll see cycles of rates going up to 20-25%. But in the recent past that wasn’t the case because we articulated a medium-term debt management strategy.” His department analyses underlying risks of the debt portfolio and prepares a risk mitigation strategy and borrowing programme in such a manner the market does not see any surprises. They watch how the market behaves and then enter the market and get whatever is needed without disturbing the market’s smooth functioning.

Discipline, Nanayakkara says, is a key professional skill the CA education gave that helps him do his present job. “You need to go into the very source of various issues. I’m managing a debt stock of Rs6.7 trillion, the country’s biggest portfolio. Unless I know precisely the source of risk, I will not be able to do it. You need certain analytical skills which I acquired from my Chartered, go into root causes and then come to an educated judgement as to what vulnerabilities you face.

If you look at the course material and exam papers of the ICASL, they are not only trying to have you pass an exam and make you a Chartered Accountant - a paper qualification - but they also want to create competent professionals capable of handling complicated issues.” That’s important for Nanayakkara in performing his present duties because of di erent types of risks. These, if not properly managed, could have a contagion e ect on the stability aim of the Central Bank - economic and price stability and financial system stability - and have an impact on the interest rate structure, that will again a ect private sector investment and pricing of various financial instruments.

“Also, if I don’t manage it properly there’s going to be some crowding out e ect. That’s why you need to have that balancing ability. Not only that, I’m running a multi-currency portfolio - US dollar, yen, euro, Australian dollar.

I must know precisely the exchange rate risks that have an impact on my portfolio. Because my objective is to minimise the cost of borrowing while providing the required financing of government cashflow, while maintaining the portfolio risk at the lowest possible level.”

Why is there a shift to increasing external and commercial borrowing by government?

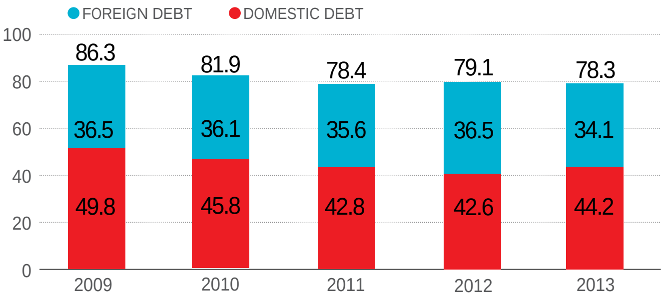
A: Sri Lanka is a developing country with a per capita of about US$ 3,300. The savings generated within the country is not su cient for financing the aggressive investment drive of the government. As a result, the government needs to bridge the Savings-Investment Gap of about 4 per cent of the GDP from foreign sources.

The current policy framework has been focused on elevating both savings and investments in order for the country to attain a higher economic growth and enhance the level of savings and investments in the medium term. Yet, in view of the savings-investment gap in the country, government has borrowed from foreign sources in addition to raising funds through domestic sources to meet a part of its resource requirements for capital expenditures.

Sri Lanka has emerged as a lower middle income country. The contracting of commercial loans in recent years corresponds to the country's graduation into middle-income country status. With the graduation, the contracting of external finances via concessional terms has eased out. On the other hand, the country cannot put on hold its public investment programmes. Therefore, like any other emerging country, Sri Lanka has to depend on commercial sources for financing her public investments. The public investments as a percentage of GDP remained around 5.5% in 2013. The ratio of external debt to GDP is on a declining path. However, still a sizable portion of Sri Lanka's project financing comes via multilateral and bi-lateral sources. Unlike the concessional financing which come with a lot of covenants, the obvious advantage of commercial financing is the flexibility of usage of finances by the borrower without adhering to certain conditionality which may not be market driven.

Also, the recent commercial borrowings such as International Sovereign Bonds (ISBs) are raised at highly competitive interest rates by the government. It can be seen from the Table that much of the borrowings are still at reasonably low interest rates. Sri Lanka is now in a better position to service these debts as some of the infrastructure projects are now yielding new income generating activities. In particular, the new infrastructure base in the country would facilitate the growth strategy based on five hubs plus tourism to diversify the economy and improve the resilience of the economy to both internal and external shocks.

DEBT TO GDP RATIO (% GDP)



How do you assess the sustainability of public debt – is Sri Lanka heading for a debt trap?

A: There has been a clear declining trend in public debt as a percentage of GDP over the years and Sri Lanka is projected to achieve public debt to GDP level of around 65% by 2016.

Also, the average time to maturity of debt portfolio in the country is increasing in recent years. For instance, Sri Lanka now stretches its T-bond up to a 30-year maturity horizon.

From another perspective, Sri Lanka's budget deficit is continuously on a declining path. Such a decline is commendable with an expected primary surplus in 2014 while maintaining a sizable public investment programme.

In recent years, sizable investments in infrastructure constituted a major financing requirement in the government budget. Such investments are expected to yield positive spill over e ects and contribute to higher economic growth and increased productivity in the future.

Although, the debt level of the country in absolute terms has increased due to the financing of much needed mega investments in infrastructure, the level of debt expressed in terms of GDP, which has been considered internationally as the prime indicator of debt sustainability, has gradually declined since 2002 owing to the benefits of prudent management of debt and robust economic expansion.

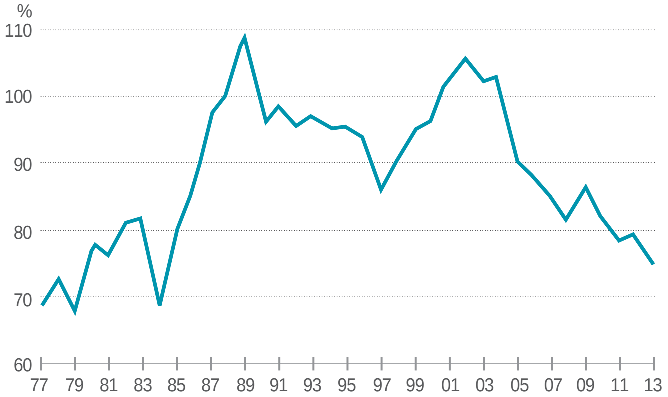
The total debt stock reported as at end-2013 amounted to Rs. 6.8 trillion which was the face (future) value of the total debt obligation of the government at maturity of such debts. This is 78.3 per cent of the current value of GDP. However, the nomi-

OUTSTANDING AMOUNT, Grace Period, Repayment Period and Average Interest Cost of Foreign Debts by Category at the end of 2013

Lender Category	Amount Rs. Billion	Grace Period (Yrs)	Repayment Period (Yrs)	Avg. Interest Rates (a) (% p.a.)
Bi-lateral	823.18	0 - 21	6 - 40	2.44
Multi-lateral	903.54	0 - 18	4 - 50	0.85
Commercial	941.17	5 - 11	0 - 20	6.35
Export credit	292.54	1 - 13	1 - 21	1.96
TOTAL	2,960.42		Average	2.58

(a) Interest paid in 2012/Disbursed outstanding debt as at end 2011 -
Source: Central Bank of Sri Lanka & Ministry of Finance

PUBLIC DEBT-TO-GDP RATIO



nal value of the outstanding debt stock as at end-2013 was only Rs. 6.4 trillion or 73.3 per cent of the GDP. Hence, from a more practical viewpoint, the o cial figure of the country's total public debt obligation would decline further.Also, Sri Lanka undergoes periodic surveillance by international agencies, including rating agencies in which prime attention is often placed on the country's public debt level. A recent one was the IMF sta mission during September 17-25, 2013 to conduct Post-Programme Monitoring as a part of the enhanced surveillance for countries which have had "exceptional access" to IMF resources, as is the case for Sri Lanka and it found no such concerns.

The evolution of public debt in Sri Lanka since the 1950s shows that the Debt/GDP has gradually been declining from 2001. The public debt crossed over 50 per cent of the country's GDP in 1964 and surpassed the 75 per cent level in 1980. By 1985 and 1986 it remained at 80.3 per cent and 86.8 per cent of GDP, respectively. The level of public debt to GDP peaked in 1989 to a level of 108.7 per cent. However, with the ending of the internal conflict in May 2009, Sri Lanka envisaged a strategy to enhance the country's prosperity by achieving robust economic growth.

The public debt to GDP levels also declined from a level of 86.2 per cent in 2009 to 81.9 per cent in 2010 and to 79.1 per cent by 2012 as given in the chart. As per the Medium Term Debt Management Strategy (MTDS) of the government, the Debt to GDP ratio is expected to be reduced to around mid-60s by 2016.

In addition, the Average Time to Maturity (ATM) of the domestic debt stock has also improved in recent years as a result of the prudent debt management policies adopted by the government and the Central Bank. The ATM of the domestic debt stock which stood at 2.1 years in 2010 improved to more than 5 years in 2013 due to the issuance of longer dated Treasury bonds.

A conducive debt threshold for a country depends upon a number of factors. The government and the Central Bank envisage in its MTDS to bring down the public debt to GDP level of 79.1 per cent in 2012 to around 60.0 per cent by 2017. In this endeavor, the primary objective of the MTDS is to ensure that the government's investment related financial needs are met at the lowest possible cost with a prudent risk horizon.

What are the prospects for reducing government borrowing by reducing government spending and curbing private consumption?

A: As already highlighted, the declining budget deficit is expected to further consolidate public expenditure and provide more space within the government borrowing programme.

The detailed path of debt components supported by public finance consolidation provides more opportunities to reduce government spending. Because of the increasing ATM, refinancing risk is getting low, the debt stock's stability has enhanced and the debt portfolio's rollover risk is reducing.

Further, the recent public expenditure is mainly on account of public investment programmes to create a more enabling environment for private sector development.

Such infrastructure is already generating income and expected to contribute towards a speedy advancement in the private sector in the coming years.

Isn't it risky to let foreign debt rise to levels when the government has to borrow to service the growing loan repayments and interest costs?

A: The external finances are mainly used for the public investment programme of the country. These projects are long term and expected to yield desired outcomes in coming years easing out the debt service payments in future. For example, the power sector Return on Investment on average is around 20%. The power sector related cost of capital is much lower than 20%. The debt level increases in absolute terms as the country needs massive investments in basic infrastructure, which would

ATM – UPWARD TREND
Medium-term targets for Sri Lanka

Indicator	2012	2013	2014	2015	2016
Debt / GDP	79.2%	78.3%	74.3%	70.6%	65.0
Short term Domestic Debt / Total Domestic Debt	25%	24%	23%	21%	22%
Average time to Maturity of Domestic Debt (yrs)	3.2	4.8	5.5	6.0	6.5
Foreign Currency Debt / Total Debt (%)	46%	44%	40%	37%	35%

GROWING DEMAND FOR T-BILLS AND BONDS

Year	Total holdings (US$ Mn)			Foreign holdings (US$ Mn)			Total Foreign holdings as a % of total	Foreign Netflow (US$ Mn)
	Bill	Bond	Total	Bill	Bond	Total		
2010	5,082	16,217	21,299	503	1,622	2,125	9.98%	466.70
2011	5,978	18,298	24,276	631	1,802	2,433	10.02%	227.29
2012	5,558	19,557	25,116	625	2,487	3,112	12,39%	892.68
2013	5,995	22,863	28,858	571	3,123	3,694	12.80%	492.68
2014 MARCH	6,315	23,325	29,640	705	3,047	3,551	12.66%	92.89

eventually take the country to higher levels of GDP. However, the interesting proposition is that such a growth in GDP substantially reduces the exposure at the time of servicing such debt as a result of returns yielded by such mega investments.

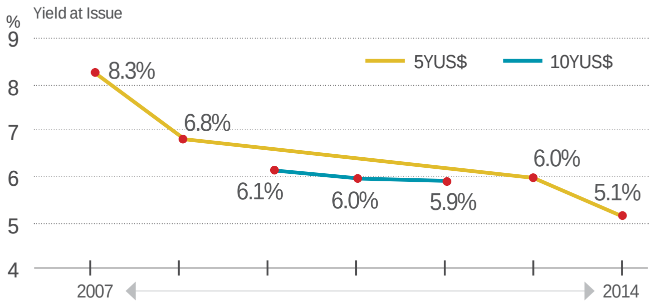
Also, from another perspective, as discussed previously, external debt as a percentage of GDP is on a declining trend.

Could higher government borrowing crowd out private borrowers in international markets?

A: In 2013, the government encouraged the private sector to explore financing opportunities abroad and did not issue any sovereign bond in the international market. As a result, many private sector institutions and state-owned banks explored the opportunities available in the international capital markets and succeeded. Further, in recent years, private sector projects received a growing trend of cash from international agencies such as International Finance Corporation. Also, a significant amount of FDI's flew into the country via both equity participation and direct foreign inflows to start ventures in the country.

The presence of government in the international capital markets often contributes to furthering the interest of international investors and provides a benchmark to private sector institutions.

SRI LANKA SOVEREIGN USD BONDS- tighter yields reflect increased investor confidence



Isn't it risky to increase dependence on foreign borrowing for deficit finance at a time of tighter global liquidity conditions?

A: There has been a significant improvement in terms of Sri Lanka's foreign borrowing during times of tight global liquidity conditions. The proportion of foreign currency debt is amongst the lowest in the peer group. Our debt burden has shrunk far faster than peers. our borrowing costs are declining and we have a diversified investor base. There's growing demand for T-bills and Bonds.

How can investment made with foreign loans taken at commercial rates generate the returns needed to service these debt obligations?

A: Commercial loans raised contribute only a small portion of projects financed mainly by the multilateral and bilateral projects funded by the government. Average returns over a period of time of these projects are significantly higher than the debt service payment cost. Commercial loans provide a degree of flexibility and thereby e ciency in project implementation.

Major share of funds raised in international capital markets are for infrastructure development projects. These infrastructure projects already support the country's economic progress and private sector advancement.

Could the government use improvements in the balance of payments to reduce foreign debt rather than increase it?

A: The balance of payments (BOP) records financial transactions made between consumers, businesses and the government in one country with others. When a country experiences a Savings- Investment Gap, foreign inflows into the country are required to bridge the gap. Such inflows, over a period of time, has positive spill over e ects and could be of equity or direct investments than debt creating inflows in to an economy enabling reduction in debt stock.

The expectations built with BOP developments contribute to reducing borrowing costs of a country and results in improvement in debt dynamics.

Interview

Clement Chan: "We are Moving Towards a System of Principle -Based Standards"

The evolution of a single set of internationally accepted accounting standards is a priority in the rapidly-globalising world economy today. However, there exist numerous obstacles, both actual and perceived, to the implementation of such a unified system, arising from disparate national economies and from divergent cultural norms. The difficulty of dealing simultaneously with a multitude of national differences led logically to the institution of regional groupings of national and other territorial jurisdictions. One such consortium, the Asian-Oceanian Standard-Setters Group (AOSSG) brings together the jurisdictions in the fastest-growing but possibly the most disparate, region in the world. We discussed how his organisation is responding to the exigencies of the complex task of reconciling the varied jurisdictional and regional deviations to the established worldwide paradigm with Clement Chan, the Chair of AOSSG, who addressed the recent South Asia Conference on Financial Reporting for Economic Development, hosted by CA Sri Lanka.

BY **VINOD MOONESINGHE**

CLEMENT CHAN, CHAIR, ASIAN-OCEANIAN STANDARD-SETTERS GROUP DURING A PANEL DISCUSSION

I think it is an ongoing battle. We have to keep on telling people the reason why national carve-out or local modification is not a good choice, is not the right way

A major obstacle to establishing a unified, high-quality set of accounting standards today, according to Clement Chan, is to ensure their consistent application in the face of various national and cultural practices. This hurdle is a major challenge, since the development of the world economy across national and other territorial boundaries necessitates the adoption of a common accounting benchmark, such as the International Financial Reporting Standards (IFRS).

"We have heard," he says, "many stakeholders in our jurisdictions, in the national economies of our region, complaining that certain parts of the standards have not been working for their economy and not really working for their domestic situations, for some specific reasons. And therefore, based on those di culties, they have wanted to have particular carve-outs or national modifications of the IFRS."

In response to such views or arguments, he makes clear the AOSSG has been telling people that IASB is neither shutting its ears, nor shutting its door to them. However, it would rather that those jurisdictions which are seeing some di culties, instead of saying "this is not what I want, this is not what I like, therefore I cannot follow it, I want to carve it up or just modify it", follow the IFRS in full and then raise the issue through the proper channels.

This is on the grounds, Chan explains, that if this procedure is followed, then the integrity of IFRS will be protected very well. On the other hand, if everyone decided on a specific carve-out or national modification, if they picked and chose, if every time they saw something they did not like and then decided they would not adopt it, ultimately there would be di erent standards for di erent economies. He points out that there are ways to change the standard at the national standard-setting level if there is something which is a real issue. For that reason, he stresses, in the long run the AOSSG encourages people to adopt the IFRS in full, with no national modification or carve-out, because of the need to preserve a unified set of universally applicable accounting standards.

"I think it is an ongoing battle" he says, referring to the challenge of ensuring the consistency of application of IFRS. "We have to keep on telling people the reason why national carve-out or local modification is not a good choice, is not the right way. You have to explain, but once you explain the reasons, I think most people can see the merit of those reasons."

However, the AOSSG does realise that it is not easy to come up with a unified set of accounting norms for the whole world, because it needs to have standards that cater to di erent situations.

"Therefore," he says, "we are moving towards a system of principle-based standards."

However, having said that, he continues, it is unavoidable that there will be circumstances in which the national standards-setters, because of some specific reasons, will find that compliance with IFRS will be an extreme di culty, and not imposable in their own national situation. It is for this reason that the AOSSG, which is a grouping of the accounting standards setters in the Asian-Oceanian region, from Australia to Uzbekistan, which includes CA Sri Lanka, was created.

The background to its formation, says Chan, was the establishment of the International Accounting Standards Board (IASB) as a centralised body to institute global-wise accounting standards. Towards the end of the "noughties", it became clear that the IFRS were becoming accepted widely across the Globe – apart from a few jurisdictions, noticeably the US and Japan, which have not adopted IFRS, much of the rest of the world has already done so.

However, says Chan "it was a common secret that the Anglo-American interest was very strong, so much so that a lot of people were saying that the IFRS were actually drafted to cater for the UK and the American economies."

As time went by, as their economies grew faster than those of UK and US, the rest of the world sought to have a louder voice in how things should be, on how they should be reported; demanding a bigger say in the international standards setting procedure. There was a growing realisation that the voices of the less developed economies, of the growing economies, of the emerging markets should be heard as well. There was a clear need to create fora for discussing common issues.

The idea of forming a regional group of standards setters as a forum for the countries in the Asian-Oceanian region to exchange their ideas, but also to have a joint voice in matters relating to IFRS, was initiated by China, Japan and South Korea in 2008. They formed the AOSSG to discuss issues, share experiences on the adoption of IFRS and to contribute to the development of a single high-quality set of inclusive global accounting standards.

"To the credit of IASB," says Chan, "they have been encouraging regional groupings of stellar centres to be formed, so that the individual smaller stellar centres could have a say, which may in their own right find it very di cult to have their voices heard. The IASB encourages regional bodies to be formed so that, collectively through the regional bodies, the voices of other

CLEMENT CHAN, CHAIR, ASIAN-OCEANIAN STANDARD-SETTERS GROUP, ADDRESSES THE SESSION ON FINANCIAL REPORTING SUPPLY CHAIN AT THE 2014 FRED CONFERENCE, THE FIRST EVER OF ITS KIND IN ASIA AND THE FIRST TIME CA SRI LANKA HOSTED SUCH AN EVENT.

stakeholders, that is, the smaller sort of economies can be heard as well."

It was against that background, based to a certain extent on the misgivings in the non-UK, non-US jurisdictions, that AOSSG was formed. There was also the problem of there being two blocs, Europe and the US, which didn't always agree and the formation of another group which could articulate a di erent viewpoint was thought to be an advantage.

On 17 April 2009, the group's preparatory meeting took place in Beijing, with its first formal meeting taking place in Kuala Lumpur, hosted by the Malaysian Accounting Standards Board, with the participation of 21 standards setting bodies from the region, including CA Sri Lanka. The AOSSG plans to play an important role in encouraging the adoption of IFRSs in the region, and its very formation was indicative of the recognition that many jurisdictions in the region have adopted or converged with IFRS. Many others have also announced timetables or road maps for convergence.

In its relatively short history, declares Chan, among its many accomplishments has been gaining recognition by the IASB as one of the major active players in the standards setting world. That he himself, as Chairman of the AOSSG, was invited to be one of the 12 members of the Accounting Standards Advisory Forum (ASAF), he avers, could be seen as a testament to that appreciation.

"There are only 12 seats," he says, "representing the whole world. As you can imagine, the major economies such as the US, Japan China, and the UK, they all have a seat there in their own right, but other than that, the regional grouping like the Latin American and the Asia-Oceanic (our group), also have a seat in that forum. So you could observe, from that angle, that the recognition of our regional grouping is there."

ASAF, he notes, is a very influential and powerful group in the standard setting world. It is the foremost advisory group to which the IASB turns to on a regular basis, when discussing the revision of existing standards, or considering the potential issues that could go onto the formal agenda of the IASB, or conferring on the existing technical projects that are o cially on the agenda. So, the seat on ASAF provides the AOSSG with a regular channel to the IASB, enabling it to have regular contact with and to advise the latter on various issues relating to standard setting and hence have a positive influence on decision making.

Another very fine achievement of the AOSSG in its short history was that it managed to push on to the o cial agenda of IASB some of the technical projects that it has sponsored. For

The seat on ASAF provides the AOSSG with a regular channel to the IASB, enabling it to have regular contact with and to advise the latter on various issues relating to standard setting

THE 2014 SOUTH ASIA CONFERENCE ON FINANCIAL REPORTING FOR ECONOMIC DEVELOPMENT BROUGHT TOGETHER SOME 200 REGULATORS, POLICY MAKERS, BUSINESS LEADERS, ACADEMICS AND PROFESSIONALS FROM ACROSS ASIA.

We always encourage people to try to raise the issue within the established channels, such as the IFRS interpretation committee, or channel through us

example, the AOSSG is promoting the revision of the International Accounting Standard (IAS) 41 (which prescribes the accounting treatment and disclosures relating to the biological transformation of biological assets – plants and animals – into agricultural produce at the time of harvest, as well as certain government grants). The AOSSG requested the IASB to consider amending IAS 41 by adding a definition for bearer biological assets (BBAs) and including BBAs within the scope of IAS 16 Property, Plant and Equipment. This has now moved on to the IASG o cial agenda for revision.

"In such cases," says Chan, "we always encourage those people to try to raise the issue within the established channels, such as the IFRS interpretation committee, or channel through us. If there is an issue which is really, e ectively a question for IASB to look at, so as to amend the existing standard to cater to or rectify that kind of di culties, the IASB is willing to do that."

When the international standards are introduced, at first there are some problems for some specific economies. However, when such issues are raised consistently through the proper channels, such as the interpretation committee or the IASB itself, then they will be examined and attempts will be made at rectification.

He provides an example: in Hong Kong, which adopted IFRS formally in 2005, the treatment of deferred tax presented a major problem, as there was no capital gains tax. The original income tax standard, IAS 12 was flawed because it required the recognition of deferred tax liabilities arising from revaluation of leasehold investment properties that are not subject, in Hong Kong, to any form of taxes upon disposal. The AOSSG raised this matter with the IASB consistently for a period of 3 years. Eventually the IASB actually amended the standard, so that it generally resulted in the deferred tax liability on investment properties being limited to the tax e ect of any claw back of depreciation allowances that would occur on sale at the current carrying amount, to suit the Hong Kong situation, thus resolving the issue at hand.

National and cultural di erences can have an impact, presenting a challenge to the jurisdiction's adaptability to IFRS. But the IASB does not tackle this category of challenges. The standard-setters at the national level realise that there are some kind of cultural issues as well; and if there are, then the AOSSG will face them, will try to manage them by looking to the very heart of the matters of concern.

The perfect example of a cultural issue arising would be one that is generated by religious law, such as Islamic finance, which has been a very important issue for AOSSG, due to the many jurisdictions within the region, such as Indonesia, Malaysia, and the Middle East countries, which have Islam as their main religion. Modern Islamic finance arose from a notion that conventional structures of financing may contain elements "haram" (taboo) to Islam's Shariah legal system. A multitude of novel alternative "Islamic" financial arrangements, combining classical trade-based contracts and other transactions, have been created, which are believed to comply with the principles of Shariah law, while being to some extent economically equivalent to similar conventional types of financing.

There are two opposing views on accounting for such Islamic financial operations (a) that IFRS can be applied and (b) that, notwithstanding any apparent similarities to the transactions addressed by IFRS, a separate set of Islamic accounting standards is required. The complication arose in attempting to find a compromise between these contrasting attitudes.

"The IASB," says Chan "is actually looking to us, as the leader for the Islamic Finance task force, to study further into how we could make a statement or adjust IFRS so that it will become consistent with Islamic ideology."

The AOSSG established a Working Group on Financial Reporting Issues relating to Islamic Finance which identified, examined and discussed the issues concerning Islamic Finance. It concluded that the challenge to standard-setters and stakeholders was to enhance the cross-border comparability of Islamic financial transactions, while being mindful of religious sensitivities. It did not, however, resolve the issue, although it did prepare the ground for an eventual solution. Chan is of the opinion that it should be possible in the end to find some kind of common ground, so that the principle of the IFRS could be applied under the terms of the Islamic laws as well.

"It is a matter of whether you have the will or not," he says. "If you have the will, you will find a way to deal with it. It would be foolhardy to say that there won't be any culture-driven or local-driven di erences. There will be, but I think it is a matter of adopting the right attitude to manage the matter when it arises."

Sometimes problems crop up because people perceive local conditions to be obstacles. Chan cites the example of the response of his Indian colleagues on various questions, such as agricultural standard IAS 41 (mentioned above) and IAS 39 (which deals with the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items) – which was replaced in January 2013 by a new standard called IFRS 9. In the case of the latter, many financial institutions in the region find compliance di cult with the new impairment standard using the concept of expected losses, instead of the existing incurred loss standard.

"I think a lot of people were wondering", says Chan, "about the adoption of the expected loss provision, that India might not have the infrastructure to provide very current indicators of loan loss and therefore the adoption of the expected loss provision in place of the incurred loss might present a challenge for them. I think this kind of di culty is a perfect example of how people perceive the local condition as the hurdle. Do you think India would be the only country having that di culty? I don't think so."

Even countries with economies as advanced as Australia, he points out, faced this problem. When at first the banking system traced the loan loss potential, they were based on the incurred loss. However, because of the switchover from incurred loss to expected loss, they now use a whole di erent set of indicators. These are more of a predictive nature and, he believes, will act as a more reliable early indicator of potential loan loss, enabling more reliable and relevant data for the expected loss model.

"I think that it is a matter for you" he says, "to do your adjustment to cater for the changing standard. I don't think that is something that India cannot do. If you have the will, you will have a way to deal with it". He cites China as another good example, in which, although inherently the economy, the way that commercial decisions are taken and commercial transactions are done, make it di cult for IFRS to be implemented, the motivation to adjust has brought convergence to IFRS closer.

"China definitely has its own challenges", he says. "But because of the determination to get onto the bandwagon, the government as well as the privately-owned commercial interests are working very hard, are working wholeheartedly to adopt the IFRS as much as possible."

Chan notes that China is almost fully converged with IFRS, which is very important for its economic development to continue. It now ranks as the second largest economy in the world and because of that economic development, there is expected to be a continued flow of companies expanding their business from China to the rest of the world or going out to raise capital. This makes it absolutely crucial for them to have their financial statements prepared under IFRS, so that the rest of the world can have an understanding of, and therefore have confidence in their financial statements.

What progress does Chan see in Sri Lanka on the application of IFRS? Chan thinks that CA Sri Lanka hosting both the fifth annual meeting of the AOSSG at the BMICH in November 2013, as well as the Conference on Financial Reporting for Economic Development, organised by CAPA, were a testament to the determination of the government of Sri Lanka and the local profession to be actively involved in the development of the accounting profession.

"I see a lot of encouragement," he says, "I see a lot of positive signals and encouragement, and although the economy is admittedly not one of the biggest economies in the world, as far as the accounting profession is concerned, I would definitely rate them as one of the most active and visionary in the profession in the region." ■

It would be foolhardy to say that there won't be any culture-driven or local-driven di erences

Idea

PRIYATH BANDU WICKRAMA, CHAIRMAN OF SLPA, WHICH IS IN CHARGE OF THE PROJECT. IT IS THE ONLY LOCAL INSTITUTION WITH EXPERIENCE AND TECHNICAL EXPERTISE FOR THE WORK

PORT CITY
CREATING LAND

BY **ROHAN GUNASEKERA**

The Colombo Port City project that will enlarge the island by 233 hectares will create more land next to where demand is highest from business, and give a fillip to the construction industry

Reclaiming land from the sea is expensive but the planned new port city project on the southern side of the new Colombo South Harbour, billed as Sri Lanka's single largest foreign direct investment, will create an entirely new city from scratch.

The Colombo Port City Development Project will reclaim 233 hectares (575 acres) from the sea just north of the Galle Face Green. The work includes reclamation and building a 3.25km long breakwater along with a canal, yacht marina, roads and other infrastructure like electricity, water, and sewerage systems.

China Harbour Engineering Company Ltd. part of China Communications Construction Co., (CCCC) got the $1.43 billion deal, based on an unsolicited proposal. The Engineering consultant for the breakwater construction is the UK's URS Infrastructure & Environment, which also provided consultancy services on the Colombo South Harbour project. The Chinese are expected to start work by December 2014 once the final agreements have been signed with the Board of Investment. The reclamation alone will take about two years.

The Sri Lanka Ports Authority is in charge of the project as it is the only local institution with experience and technical expertise for the work, which includes maintaining the canal and artificial beach, says SLPA chairman Priyath Bandu Wickrama.

No SLPA or government funds will be used in the project which will be funded entirely by China.

"The project will be completed in 39 months. The government will get 125 hectares at no cost to itself," Wickrama said.

Of the rest, 88 hectares will be owned by Sri Lanka but given on a 99-year lease to CCCC which will also get 20 hectares on a freehold basis as a return on their investment. The Chinese investor can lease these lands to other investors to cover costs and earn revenue.

The project comes under the Strategic Development Projects Act which entitles it to a host of concessions. CCCC gets a 25-year corporate tax holiday while the project company, China Harbour Engineering, will be exempt from tax on dividends for 25 years. China Communication Construction Company is a Chinese government-owned Fortune 500 company listed on the Hong Kong and Shanghai stock exchanges.

The Chinese proposal for land reclamation and urban development was cleared by the Standing Cabinet Appointed Review Committee of the Department of Public Finance. Environmental impact assessment clearance was given in December 2011. Lanka Hydraulic Institute has done hydrographic modelling for the project.

Wickrama said a management company 100% owned by SLPA will be set up to manage the new city and earn revenue by leasing the land. It aims to attract international shipping and logistics firms to set up headquarters there, and shopping malls, hotels and builders of apartments and o ces. The SLPA expects to collect hefty revenue by leasing land for these projects.

The new land created by the project will be released on the market gradually, not all of a sudden, so as not to disturb land prices, Wickrama said. He estimates the value of a perch will be almost Rs8 million.

The SLPA says the project will draw investments worth US$20 billion. "The port city project will bring in a lot of foreign investment" said Wickrama. "Already we have two investors who have given their commitment and we are confident more will follow."The feasibility of linking the port city to the Katunayake Expressway is also being studied to ensure it has the best connectivity.

The city project will require heavy dredging like that seen during the construction of the Colombo South Harbour, the first terminal of which is now operational.

The total dredging volume is about 30 million cubic metres. The total requirement of rock is three million cubic metres which will be trucked from a quarry in Kaduwela. Already, more than 200,000 cubic metres of rock have been stockpiled on the project site in preparation for the commencement of work.

The Chinese contractor is expected to hire about half-a-dozen vessels, called trailer suction hopper dredgers, for dredging and dumping on the reclamation site. The dredging site is 15 - 30 km north of Colombo port.

THE PROJECT WILL ENLARGE THE ISLAND, ALTER THE SKYLINE AND PROVIDE A GREENFIELD SPACE TO BUILD A CITY FROM SCRATCH

233 hectares
Area to be reclaimed

3.25 km
Length of breakwater

US$ 1.43 bn
Investment by Chinese investor

39 months
Project duration

Extending The Construction Boom

Work related to the port city project will help extend the ongoing construction boom, says Professor Chitra Weddikkara, President, Sri Lanka Institute of Architects and Dean of the Colombo School of Construction Technology. A relatively stable, conducive environment for the construction industry has been created only now, following the nearly 30-year ethnic war.

The construction industry is inherently cyclical and the conflict made matters worse, resulting in long periods of stagnation. Now, though, many international players are coming into the market, says Weddikkara, a former president of the Institute of Quantity Surveyors.

She likens the Port City project to similar reclamation and urban development projects elsewhere like Dubai's Palm Island.

"From the construction industry point of view it is certainly a good thing. It will help create jobs and give plenty of work for contractors and consultants and put Sri Lanka on the global map."

The port city project will help extend the boom and the upward phase of the industry cycle and reduce volatility, Weddikkara said.

"The Port City project is only just starting. It will keep the construction boom going for a while."

While there is plenty of work, the industry feels there isn't enough technology transfer taking place.

"Many international players are coming but the technology transfer is not enough," says Weddikkara. "There's no legal mandate for local content in these projects."

20 - 30%
of the cost of a project be given to local contractors and consultants - construction industry proposal

The construction industry is lobbying the government to ensure this happens.

"We have submitted a memorandum to government to make it mandatory for transfer of technology and value addition to local contractors. Now we need the opportunity to do big projects. But most of the work is going to foreigners as they have the experience. We proposed that work involving 20-30% of the cost of a project be given to local contractors and consultants."

Weddikkara also feels the greenfield nature of the port city project makes it useful.

"Getting extra land for development with the port city project means there'll be no need for demolition or retrofitting. Instead we can start from scratch. And it will bring a lot of exposure to the country. We'll be in the global market, like Singapore and Dubai."

Tax Free Zones

25 years
Corporate tax holiday for investor

US$ 20 bn
Anticipated investments in the port city

The Port City project is part of a bigger government initiative designed to exploit Sri Lanka's geographic location astride the main East-West shipping route across the Indian Ocean by making it a maritime hub like Singapore and Dubai.

While the SLPA hopes to lure international shipping lines and logistics companies to set up headquarters in the new city, the port free zones legislation that has been announced is intended to provide the tax benefits that will encourage entrepot trade and o -shore business.

The Commercial Hub Regulation No. 1 of 2013 declared Colombo and Hambantota ports as free ports where no taxes will be charged from investors, creating a legal structure similar to Dubai and Singapore which are successful trade and transport hubs.

Tony Restall, an expert on free zones, says his company has investors lined up who are willing to invest in the island if only they are assured proper incentives like tax breaks and transfer of capital incentives.

"The whole idea of having a free zone is that it's a country within a country. And that country within a country has its own tax rules and regulations."

"The whole idea of having a free zone is that it's a country within a country"

Restall's firm Development Services International Ltd (DSI), based in Thailand, o ers free zone and economic development management and consultancy services and does bench mark studies of countries for investors. These look at location, logistics, land, utilities and cost of local labour. He works with investors ranging from people who want a small o ce to be a trader and a broker to those who want to build oil refineries.

"What we're proposing to Sri Lanka is, if you can sort that out, it's not a major problem - you will attract the investors. Undoubtedly you will attract the investors, because you've got everything else.

"A lot of countries around the world say 'oh we already have in place free zone legislation'. But that free zone legislation is not international free zone legislation, it's national free zone legislation. The whole idea, and the success behind the UAE free zones, is that in the free zones, basically you will never pay tax."

Restall also suggests simplifying documentation as in Dubai, saying investors haven't got the time to wade through large amounts of paper work, and procedures for cargo clearance.

Interview

FAYEZUL CHOUDHURY: Imperative For Accounting Profession to Grow With Economy

Founded in 1977, the International Federation of Accountants (IFAC) is the global organisation of the accountancy profession. With 179 member institutions from 130 countries and jurisdictions – among them the Institute of Chartered Accountants of Sri Lanka (CASL) – it represents approximately 2.5 million accountants in public practice, education, government services, industry, and commerce. It endeavours to strengthen the profession and to benefit all professional accountants, as well as the levels of society impacted by their responsibilities.

BY **VINOD MOONESINGHE**

FAYEZUL CHOUDHURY, CHIEF EXECUTIVE OFFICER OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS

Fayezul Choudhury, who became Chief Executive O cer of IFAC in February 2013, was previously with the World Bank, where he was the World Bank's spokesperson on global accounting and auditing issues. A Fellow of the Institute of Chartered Accountants of England and Wales, with an MA (Hons) in Engineering Science and Economics from the University of Oxford, he has had a career spanning 40 years. We spoke to him during the South Asia Conference on Financial Reporting for Economic Development, hosted by CASL, at which he was a special guest.

INTERVIEW
Fayezul Choudhury

Being the CEO of IFAC, what do you see as IFAC'S most significant accomplishment as the global organization for the accountancy profession?
A: We are a public interest organisation, we are not-for-profit, and our objective is to ensure that accountancy is undertaken in the context of the benefit of society – we hope that, since we do not have commercial interests, our motivation is seen as pure. We support standard setting and having a quality regime, so that incorporated bodies must comply with certain standards. We try to promote accountancy development in the developing world, we try and share our member bodies' knowledge across the globe and we try to speak out on themes that are important for the global accounting community. Because we are global we can participate in events like this conference; we can bring in international organisations. Our main accomplishment is in providing a global platform for accounting issues.

> **Without good accounting expertise, the private sector cannot grow in a sustainable fashion and capital markets cannot be e cient**

What has been IFAC'S greatest challenge, what are its priorities?
A: Because we are global, we represent both the very large and also the very small organisations; we represent a number of di erent segments of the accounting world: auditors in large practices, auditors in small and medium-sized practices, accountants in business and accountants in the public sector; and of course spanning the globe. So we have to try and ensure that the issues we deal with are of interest to all of our members, that we do not focus exclusively on one set of issues relevant to only one set of the membership. So in generating our strategic direction, our priorities must balance the variety of our stakeholders and we must make sure that we identify the issues that are of interest and concern to as many of them as possible.

Our first priority is support for setting the global standards for auditing and assurance, for ethics, for education and for public sector accounting. Their standards are set by independent boards, but we provide sta support and logistical and material support for them. The second is what we call our compliance advisory panel, which tries to make sure that all our member bodies comply with what we call our statement of member obligations, of which there are seven that you have to comply with in order to be recognised by IFAC. We monitor all our members and make certain that they are working towards compliance with that. We have a deep knowledge base on how to develop the accounting profession in developing countries and we try to bring that knowledge to bear, to try and improve the quality of accounting in the developing world. We believe that it is something that is fundamentally important to economic growth, and that is the theme of this conference.

Another priority is knowledge dissemination. All our member bodies, to some extent have very useful knowledge resources, so we have been trying to prepare a platform for sharing that knowledge using web technology. What we call a global knowledge gateway, to put all this knowledge in one place where it can be accessed by 3 million accountants from around the world, plus others who are interested. The final area that we focus on is what we call 'speaking out' on topics which are important for the accounting profession and where our global voice is important. For example the theme of this conference is the financial reporting supply chain, who is accountable for what, which we believe is an important issue to put on the table, for accountants and regulators to discuss. So we try and create a platform and the momentum to add such issues.

How do you see the growth of the profession in the SAARC region within the context of the current and anticipated environment?
A: That is a very good question. Macro-economic growth is uneven, but the SAARC region is growing at a very impressive rate and in order for that growth rate to be sustainable, we believe that it is very important that certain what I call 'cornerstone professions of society' develop. You need the rule of law so you need judicial institutions, you need lawyers. But you also need accountants because without good accounting expertise, the private sector cannot grow in a sustainable fashion and capital markets cannot be e cient. And in the public sector it is very important that you have good public sector financial management because it is the citizens' money and it needs to be spent wisely; and how it is being spent needs to be very transparent, based on consistent, reliable and comparable data. And that is what accountants do: produce consistent, reliable and comparable data.

As the economy grows it is imperative that the accounting profession grow with it, to meet the challenges of the future as well as maintain the progress of today. In the context of a region of high growth and tremendous potential, and also tremendous need, like South Asia, that the profession grows is very important. The growth of the accounting profession has been uneven, in some countries it is very large, strong, producing many accountants; in others it is much smaller. The challenge there is to provide the momentum, so that the professional accounting organisations within the country can stimulate more young people to join the profession, and to ensure that they are subject to a rigorous qualification process so that they can go out into the work force, either in the private or the public sector, to participate in the country's economic growth.

What significant risks are faced in the SAARC region in terms of strengthening the profession and contributing to the development of strong economies?

A: I think probably two. One is the risk that the professional accounting organisations in some countries may not be of a high quality that ensures that the quality of people passing through the process and emerging with accounting qualification is also high. There is also the risk that the professional accounting organisations may not be e ective in guaranteeing that the accountant complies with the ethics, codes and standards of the institute. It is very important, that they be e ective with ethics, codes, disciplinary processes and continued professional development which work, to make sure that the accountant remains highly skilled with high ethical codes, and therefore trusted.

The second risk is simply attracting the right quality of entrants into the accounting profession. Young people these days have many more educational options and career choices than before. For example, the business administration qualification is much easier to get, than the accountancy charter; it is much more general, so you can go straight into the work force and earn an entry level salary. Accountants have a very rigorous qualification and must go through a training period during which they are paid less than their peers. Attracting the next generation of the best and the brightest into the accounting profession is also an important challenge. And if we can't meet that challenge, then the risk obviously is that we don't have the right number of accountants and we don't have accountants who are really top tier.

There is an attitude towards accountancy in the world in general, that it is a boring profession. Isn't this a challenge?

A: I agree, the label 'accountant' in the past was another way of saying, or elaborating on 'boring': not risk-taking, paying much attention to detail,

FAYEZUL CHOUDHURY, CHIEF EXECUTIVE OFFICER, IFAC MAKES A POINT DURING THE CONFERENCE

If you get an accounting qualification, you really do understand how the business works, from the bottom up, from the perspective of the numbers

not really creative, not very charismatic. We have a rebranding challenge, globally. The work of auditors is quite complex; to address the challenges they face, they must be very professional, smart, articulate and persuasive. So you cannot be the boring, clerical type, to be e ective. And accountants don't always stay in audit, but also move on to industry, becoming accountants, finance directors, CEOs, they sit on boards, and they go into other areas of business entrepreneurship – because it is excellent training. If you get an accounting qualification, you really do understand how the business works, from the bottom up, from the perspective of the numbers. That is your foundation, and you can do with it what you will. So if you want to be safe and predictable, if you want 9-5, you can do that. But if you have a di erent type of personality, that enjoys di erent types of challenges, you are well equipped to do that as well. Communicating that story, especially to the younger people, is very important.

What is the strategic plan for the development, adoption and implementation of high-quality international standards?

A: The development of the standards is an elaborate process undertaken by standards setting bodies, and overseen by something called the public interest oversight board, because in standard-setting you need the technical expertise that accountants can provide, but you also want to avoid the conflict of interests of accountants setting their own standards. So there is a very elaborate public interest oversight process, at every step, making sure, through a variety of measures that the standards-setting board is fully involved with the public, that a wide range of inputs and perspectives are being considered and balanced and that the development work is on

INTERVIEW
Fayezul Choudhury

DR. SARATH AMUNUGAMA, DEPUTY MINISTER OF FINANCE AND PLANNING, SECOND FROM RIGHT, MADE THE KEYNOTE ADDRESS AT THE CONFERENCE INAUGURATION. AT EXTREME LEFT IS ARJUNA HERATH, PRESIDENT, CA SRI LANKA WITH SUJEEWA MUDALIGE, PRESIDENT, CAPA NEXT TO HIM.

track and is fine. But the next step after writing the standard is to get countries to adopt them, and then to get them to implement them.

When I mentioned that every professional accounting organisation, to be a member of IFAC, has to commit to these seven statements of member obligation, a number of those relate to the adoption and implementation of international standards. So that is the mechanism through which we drive the adoption and implementation of standards and we try and provide technical assistance where we can and we try and lend our voice because sometimes these are decisions that a professional accounting organisation cannot take. The government or regulator has to take them. So, on a country by country basis when asked we try and help in advocacy. But even in many countries out there it is a relatively slow process; there is always a trade o . People sometimes don't want to give up their national standards and their national authority to some international concept. But we are getting there, we have got pretty extensive adoption and implementation in most of our standards.

What is IFAC's approach to support the diverse needs of Small and Medium Enterprises (SMEs) and Small and Medium Practices (SMPs)?

A: Clearly they are a vitally important constituency. IFAC is very aware of the fact that our member bodies have a large number of members who are primarily in the small and medium type of practices, who primarily serve the SMEs. The development literature is unanimous in its view that SMEs are the engines of growth – huge corporations won't be set up overnight and employ tens of thousands of people, it starts with an SME. Some of them stay as SMEs, some of them grow to become very large entities, but they are the ones creating employment and wealth. So to deal with that sector e ectively is of crucial importance. We have the Small and Medium-sized Practices Committee, which is drawn from 18 experts from around the globe, to develop our strategies and work with us to achieve that strategy, of how to support the SMP sector.

It is an obsolete concept in today's world that just a set of numbers tells you the full story of how a company is doing

We have also launched, as I mentioned earlier, a few months ago, the Global Knowledge Gateway, which is a resource that tries to pool all the guidelines and best practices across the world, topic by topic, that anyone around the world can access. It has an SMP component and, as time goes on, we will have more and more references to that.

We believe that this will be a tremendous resource for, say SMPs from Mongolia and Brazil to the United States, to learn what the SMPs in Sri Lanka are doing. The notion is that we are a global accounting community and we have to learn from each other – it is wasteful to reinvent the wheel, country by country. We are trying to put all that knowledge together in a way that it can be accessed easily so that people can learn from each other and adapt the best practices from other countries to their own local context. We think that this will be a powerful tool and will have significant benefit for SMPs.

What is IFAC's focus on Integrated Reporting, which has emerged as a major initiative to facilitate transparency and accountability?

A: We are strong advocates of the concept, because it is an obsolete concept in today's world that just a set of numbers tells you the full story of how a company is doing. The company should explain to its stakeholders and, more broadly, to society at large its overall performance, the resources it is using, and the prospects for those resources. The numbers are the resultant of what your inputs are and how you interact with them to conduct your business.

The International Integrated Reporting Council (IIRC) is doing great work. We have a number of people seconded to it to help it in its work. These are very early days as you know. The IIRC is doing a number of pilot studies, a number of large companies are testing it to see what the implementation issues are and to see what an integrated report looks like, so again people can learn from each other. So we are very involved in every step of that process, and we are trying to contribute positively. It is work-in-progress, but it is heading in an exciting direction and we are fully engaged.

How do you see the accounting bodies within the SAARC region supporting the sustainability of organisations, markets and economies via the development of the accountancy profession?

A: In the private sector the accountant's role is to ensure the integrity of financial transactions and clear and transparent communication of results, both for internal and external use by stakeholders and financiers. Without it, you don't have stable entities – you might have companies growing, but they collapse because they were not properly controlled. As companies grow they need more access to finance, to capital markets; capital markets rely on the quality of financial information to base their decisions on whether to lend or invest; it is, clearly critical from that perspective. But it is also crucial in the public sector, which gets less publicity – government needs to be accountable to the people: that is what democracy is all about. Part of that accountability, is the transparent availability of believable data, on what is happening and why. This often gets lost in the political sloganeering, but is vitally important. So one of the things that we promote very actively is sound public sector finances. One example, and it is widespread across the world, is governments not recording all their assets and liabilities. The big issue in the West is pension obligations: it is meaningless saying the budget is in surplus or has a very small deficit, if you haven't recorded a huge liability in the future for your pension obligations, for your social healthcare services. If I am a private sector company and I go to my banker and shareholders and say "here is my balance sheet, by the way 50% of my liabilities aren't recorded because they are in the future", no one would accept that. We are working very actively to raise awareness of this issue and engage civil society organisations to keep the pressure on governments to do the right thing.

You have a first-rate professional organisation; you produce high-quality accountants

As a full member of IFAC where would you see the progress that CA Sri Lanka has accomplished in comparison with the other member bodies in the SAARC region?

A: I do not want to do a comparison, because every country has its own di erent context. This is my first visit to Sri Lanka. I have met the senior members of the Institute in other fora but this is the first time I am dealing with them on their own turf, and I am extremely impressed. The wonderful news is that everyone is on the same page. At the conference, we heard from the Governor of the Central Bank, who is an accountant, and from the Deputy Minister of Finance. Both those very senior policy makers understand the importance of accountancy and they have a regular dialogue with the Institute and the Institute has responded very well. You have a first-rate professional organisation; you produce high-quality accountants. The Minister mentioned that you export many high-quality accountants as well! I think that is very good news, as you are poised for a significant period of economic growth. I think it is a very good alignment.

Are you familiar with CA Sri Lanka's new curriculum?

A: Not in detail. But I think its concept of also allowing di erent tiers of qualification is very important. I analogise it to the medical and the legal professions. If you just train doctors, you are not going to provide a quality health service. You need doctors, you need medical technicians, you need nurses; that is a continuum that provides for a good health care system. If you look at the legal practice, you can't just produce lawyers, you also need paralegals, you need legal clerks – overall that is what contributes to an e cient legal system. Accountants are the same. You can't just have high-quality, very skilled professional accountants if the people they are supervising are not trained to the level of work they do. Getting this continuum is very important, so that the disciplines and skills of accounting pervade the accounting and finance function from top to bottom. It is just common sense and it creates a better employment situation – because it is a pyramid, there are more people at the bottom and the middle than there are at the top. You are training people for the volume of employable people with the right skills. For the SMEs, sometimes the smaller ones, in their initial stages, can't a ord or don't need the full, pukka chartered accountant, but someone who has accounting skills that are relevant and su cient for their needs. So I think the idea of having various tiers of qualifications is absolutely the right way to go. ■

ADVERTORIAL

HNB Assurance records highest ever GWP in Q1

This outstanding achievement is attributed to the renewed focus and energy with which the two recently segregated Life and General distribution teams commenced their operations.

Manjula de Silva -
Managing Director of HNB Assurance

HNB Assurance PLC lived up to its reputation as the fastest growing insurer in Sri Lanka by recording a growth of 24% in its turnover measured by Gross Written Premium in the quarter ended 31st March 2014. Its Life Insurance GWP grew by 34% outpacing the Life Insurance market which grew by only about 10% in the first quarter of 2014. The Company's achievement in the General Insurance sector was equally impressive as it recorded a growth of 16% while the General Insurance market recorded a decline by about 1%.

The combined GWP of Rs. 1.14 Billion achieved in the quarter turned out to be the highest ever recorded by the Company in a single quarter. The combined GWP achievement of Rs. 538.3 Million in the month of March also established a new record as the highest ever GWP recorded in a month.

According to Manjula de Silva, Managing Director of HNB Assurance, ?his outstanding achievement is attributed to the renewed focus and energy with which the two recently segregated Life and General distribution teams commenced their operations?He is hopeful that the momentum built during the first quarter will be carried through during the entire year

The Company was also able to deliver an 8% growth in its Profit After Tax

enabling the Company to end its last year as a composite Company on a high note.

The Company was also able to deliver an 8% growth in its Profit After Tax. The profit declared for the period of Rs. 53.9 Million is derived entirely from the General Insurance business as the Company recognizes a profit from Life Insurance only after the year ?end actuarial valuation is completed.

HNB Assurance PLC is one of the fastest growing Insurance Companies in Sri Lanka with a network of 51 branches. HNBA is a composite Insurance company with a rating of A (lka) by Fitch Rating Lanka for "National Insurer Financial Strength Rating" and "National Long- term Rating". HNBA is also rated within the Top 100 Brands and Top 100 companies in Sri Lanka by LMD. It recently won international awards for Brand Excellence and HR Excellence and also won many awards for its Annual Reports at the Award ceremonies organized by the Institute of Chartered Accountants of Sri Lanka, ACCA Sri Lanka (Association of Chartered Certified Accountants) and SAFA (South Asian Federation of Accountants)

Focus On - Technical

Global governance standards needed to lure investors

Sri Lanka's corporate sector needs to have world-class governance standards to be able to attract foreign investments, the head of the capital markets regulator said.

"Global fund managers should see Sri Lanka as a place where companies are managed by world-class professionals to the highest global standards" declared Dr. Nalaka Godahewa, Chairman of the Securities and Exchange Commission (SEC).

"Our corporate governance standards should be second to none. Our company directors should be able to provide leadership to these companies. That's the future we have to aspire for and get ready for".

The SEC and the Colombo Stock Exchange (CSE) have been very actively promoting Sri Lanka as an investment destination for global fund managers and present the island as a fast emerging commercial hub which is ready to meet global expectations, he told the launch of the Corporate Directors Programme on 20th May 2014.

DR. NALAKA GODAHEWA, CHAIRMAN OF THE SECURITIES AND EXCHANGE COMMISSION

It is jointly organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) together with the SEC aiming to help corporate directors enhance their existing competencies and gear themselves to take on new regulations and challenges.

It targets executive and non-executive directors of public listed companies, directors of state-owned enterprises, shareholder directors of family-connected companies and senior professionals aspiring to be directors.

The programme, starting 26 June, 2014, will be conducted over ten sessions with a combination of lectures, panel discussions and work group sessions. The panel will consist of representatives from the corporate community, regulatory agencies, corporate lawyers, financial analysts and auditors and assurance providers.

"We may be local in scale but we have to think global" Godahewa said. "We need to prepare our corporate entities to face tomorrow's global challenges. For that we need to continue to enhance the quality of our corporate leadership.

"The size of the country has nothing to do with what you can achieve if you think world class. Look at our own apparel industry. We are second to none in global standards. There are several Sri Lankan companies who have already proven to be world class."

Godahewa urged company directors to seriously consider how such a program can add value to their professional career and make the best use of it now, noting that the SEC might consider making it a mandatory qualification for holding a directorship of a listed company.

"We like to see all corporate directors in this country find time to go through these programmes. I don't think seniority in the corporate world should be considered an excuse to avoid your responsibility to continuously upgrade and enhance your knowledge about the job."

The Corporate Directors Programme would help strengthen the understanding of and the responsibilities implicit in a board mandate and the laws and regulations, performance and compliance and corporate social responsibilities of the board and the directors. Directors face a dynamic corporate environment with changing laws, rules and regulations.

"So unless you make an effort to constantly upgrade your knowledge and enhance your skills you are in danger of becoming obsolete in next to no time" Godahewa said. "It is a common belief that non-executive directors being part time members of the board have fewer responsibilities towards the company. But the law makes no difference between an executive director and a non-executive director and both can be held to the same standard."

TRAINING WILL HELP DIRECTORS STRENGTHEN THEIR UNDERSTANDING OF THE LAWS AND REGULATIONS, PERFORMANCE AND COMPLIANCE, GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITIES.

How, not how much

How companies make money is as important as how much they make, a leading advocate of Integrated Reporting said at the launch of the Corporate Directors Programme.

"Integrated Reporting is not about how much money you make but how you make it and while making money how it impacts financial, social, environment aspects" said Professor Mervyn King, Chairman of the International Integrated Reporting Council (IIRC).

He noted that an integrated report, unlike the more conventional financial report which primarily focuses on the financial aspect, shows how a company sustains the value creation, enhancing the impact on society, environment and finance.

"An integrated report shows how an organization brings sustainability into their organization, so readers can make an informed assessment to understand how the business will sustain on the longer term" said King, a former judge of the Supreme Court of South Africa, and Chairman Emeritus of the Global Reporting Initiative (GRI) in Amsterdam.

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs advocating communication about value creation in corporate reporting.

King emphasized that integrated reporting is a clear and understandable way to tell stakeholders how the board has applied their minds collectively to the sustainability issues relevant to the business, while giving stakeholders a long term strategy for as far ahead as 20 to 30 years.

"Integrated Reporting is not about how much money you make but how you make it"

Integrated Reporting helps a company's stability, as it not only focuses on the financial aspects but looks at other significant areas; social and environmental.

"Stakeholders expect that the company has not profited at the expense of the environment, human rights, a lack of integrity or society. Companies cannot solve 21st century problems with the same mindset their boards used when they created them." ■

Fine tuning boardroom behavior

CORPORATE DIRECTORS PROGRAMME CHAIRMAN ASITE TALWATTE

The idea of formulating and developing a special programme for corporate directors which could eventually evolve into an SEC accredited qualification was initiated by the Institute of Chartered Accountants.

Its President Arjuna Herath said that CA Sri Lanka had been contemplating the launch of the Corporate Directors Programme for a long time, as far back as a decade since the launch of the Code of Best Practice on Corporate Governance with the SEC.

"We believe that there is a need for the Code of Best Practice on Corporate Governance to be understood in its proper perspective, and the true spirit of it entrenched when embracing and adopting it. It is in this context that CA Sri Lanka along with the Securities and Exchange Commission embarked on this programme" he said.

Herath noted that the Corporate Directors Programme will truly be an enriching, insightful, and a rewarding experience for directors, helping them fine tune their performance in the boardroom.

The programme was developed with a view to ensure directors of all listed companies are familiar with what is expected of them as directors, while ensuring that they have the capacity to e ectively fulfill their corporate role.

Corporate Directors Programme Chairman Asite Talwatte said that it is unique in its structure and content, bringing in all dimensions of directorship at a sufficient level of depth and breadth making it practical, futuristic and interactive.

"We have recognised the importance of conformance and performance, while providing a platform to discuss sustainability and corporate social responsibility." ■

Draft Code of Ethics open for comments

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has published the draft of the Code of Ethics 2014 for members' comments. The latest revision has taken into consideration the relevant amendments made to the Code of Ethics globally and the draft Code was developed based on the Handbook of the Code of Ethics for Professional Accountants 2012 Edition published by the International Ethics Standards Board for Accountants (IESB).

The draft Code of Ethics 2014 publication is open for comment until 31st August 2014. ■

Focus On - Technical

SME development in Matara and Badulla

The Institute of Chartered Accountants of Sri Lanka conducted three programmes focusing on Small and Medium Sized Entities (SMEs) development in conjunction with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) in April and May 2014.

CA Sri Lanka kicked off a seminar on Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLFRS for SMEs) at Solis Hotel, Matara on 30th April 2014, which was conducted by Upendra Wijesingha, Head of Technical at CA Sri Lanka.

The participants who were CFOs, accountants, and auditors of SMEs got a thorough understanding of the applicable financial reporting framework for SMEs and the benefits of adopting SLFRS for SMEs. The seminar educated participants on which entities are eligible for SLFRS for SMEs, principles in SLFRS for SMEs and the difference between SLFRS for SMEs and the full SLFRS.

CA Sri Lanka also conducted two separate training programmes on Computerized Accounting Package – Sage 50 on 21st May 2014 in Matara (ESOFT Regional Campus) and 22nd May 2014 in Badulla (ESOFT Computer Studies).

The training programme was conducted by Madura Gamanayaka, Managing Director of Perfect Business Solution Services (Pvt) Ltd, for the accountants and other professionals who seek to improve their knowledge of computerized accounting in connection with SMEs.

> **Participants got a thorough understanding of the applicable financial reporting framework for SMEs and the benefits of adopting SLFRS for SMEs**

During the training programme, Gamanayaka covered a multitude of areas including computerized accounting systems and its environment, processing techniques used for computerized accounting, computerized trading company with main modules, G/L with cash book and bank reconciliation, accounts payable/receivable ledger, financial and cash flow budgets and financial reporting.

Forum on Role of the CFO

Chief Financial Officers (CFOs) are coming under increasing scrutiny while their roles as CFOs continue to be 'stretched', declared Fayez Choudhury, Chief Executive Officer of the International Federation of Accountants (IFAC), at a CFO Forum CA Sri Lanka recently organized. The forum, on 19th May 2014 at Cinnamon Grand Colombo, concluded with a panel discussion comprising of Choudhury, Rob Ward – Head of Leadership and Advocacy of the Institute of Chartered Accountants Australia, Aravinda Perera – Managing Director of Sampath Bank PLC and Nandika Buddhipala - Chief Financial Officer of Commercial Bank PLC. The session was moderated by CA Sri Lanka President Arjuna Herath.

Accounting Standards for small entities

Having identified difficulties in applying SLFRS for SMEs for the smaller sized entities even though it has simplifications, the Technical division of the CA Sri Lanka is currently in the process of developing Accounting Standards for smaller sized entities. A smaller sized entity normally has few employees and is often owner managed, has low or moderate levels of revenue and assets; and does not hold or issue complex financial instruments; or issue shares or share options to employees or other parties in exchange for goods or services or have investments in subsidiaries, associates or joint ventures.

For most smaller sized entities the requirements in SLFRS for SMEs in relation to accounting for business combinations, financial instruments, borrowing cost, share based payments, and deferred tax, are either not relevant or not cost effective.

A sub-committee was appointed by the Accounting Standards Committee to develop a separate accounting standard for smaller sized entities. The sub-committee consists of Nishan Fernando, Kapila Atukorala and Sanath Fernando and is chaired by Ajith Ratnayake. The objectives of the standard would be to provide an Accounting Standard for smaller sized entities, which is easy to understand and apply, cost effective for those entities; and accommodates the needs of its intended users, preparers and auditors.

Update

SME-friendly accounting standard contemplated

A RECENT 'ROUND TABLE DISCUSSION ON PROPOSED AMENDMENTS & EMERGING ISSUES FOR SMES' HELD AT CA SRI LANKA WAS INVALUABLE FOR CFOS, AUDITORS, ACCOUNTANTS AND FINANCE DIVISIONS OF SMES, GIVING AN OPPORTUNITY TO VOICE ANY RESERVATIONS THEY MAY HAVE ON SPECIFIC AMENDMENTS WHICH WILL BE CONVEYED TO THE IASB.

CA Sri Lanka is keen to help small and medium enterprises to adopt tailor-made International Financial Reporting Standards (IFRS) given its inherent advantages.

"A comprehensive set of internationally accepted financial accounts can prove to be a vital springboard for SMEs to access finance and attract local and foreign investment" said Arjuna Herath, President, CA Sri Lanka.

"It is not a question of when, but how Sri Lanka's SMEs will leverage on SLFRS for SMEs to benefit from them."

Herath said there is a specific standard applicable to SMEs but some of them considering compliance with the SME standard or those in the process of adopting the standard have cited a few technical accounting di culties.

Many of these di culties arise out of the fact some of the principles in the standards do not apply to specific peculiar contexts or circumstances.

However, says Herath, this need not deter compliance as the institute will be able to provide guidelines to deal with these accounting technical di culties and the benefits that will accrue on compliance far outweigh arguments against.

One of the biggest challenges SMEs face is in the access to finance. The main reason for this is financiers, whether banks or other financial institutions, have di culties in relying on the information provided by the financial statements due to the lack of a clear and coherent accounting principle application.

The IFRS for SMEs is a globally recognized standard, and when applied correctly will allow financiers to better assess the company's performance and risk, as well as give better confidence regarding the company, reducing barriers in access to finance.

"The SME sector in Sri Lanka has been identified as the backbone of the nation's economy, and in the final analysis, a common set of accounting standards would no doubt strengthen the sector's profile in the long term" Herath said.

"Given that the local standard is based on its IFRS equivalent, local SMEs would be able to establish a comparable set of financial statements with SMEs in the world, where over 80 countries have already adopted this international standard."

In Asia, the SME sectors in Bangladesh, Bhutan, Cambodia, Fiji, Hong Kong, Myanmar, Singapore and Sri Lanka have adopted the IFRS for SMEs.

From 2012, some SMEs in Sri Lanka adopted the SLFRS for SMEs. Since then, new amendments were announced by IASB to the IFRS for SMEs on which SLFRS for SMEs was developed. However, these proposed amendments require analysis and debate amongst the SME sector to ensure that the sector articulates its financial reporting requirements and that these amendments will indeed simplify rather than further complicate the standard.

One of the major obstacles in adopting these proposed amendments as it is will be the 'no revaluation' of property, plant and equipment clause. ■

Erandi Kanchana, A/L's all-island first chooses CA Sri Lanka

Erandi Kanchana, first islandwide in the commerce stream at last year's GCE Advanced Level, chose the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) to fulfill her dream of becoming a globally sought-after Chartered Accountant.

"From the inception I always wanted to become a chartered accountant, and hence I chose CA Sri Lanka because of its prestigious standing in the accounting world and because it is recognized even abroad" she said.

Kanchana who has already commenced her studies in chartered accountancy at CA Sri Lanka noted that chartered accountants enjoyed unlimited job opportunities all over the world and, unlike most other professions, enjoy job security.

Kanchana, a student of Rathnawali Balika Vidyalaya, Gampaha obtained three As with a Z-score of 2.7138 at the A/L examination, a result of her determined commitment and dedication to studies.

"From the very beginning I studied hard and concentrated on my studies to the utmost, with the aim of achieving exceptional results at the exams, and I believe I owe it to my hard work for the results I got at the ALs." ■

Update

CA Sri Lanka joins with DUKE CE again

The Institute of Chartered Accountants of Sri Lanka is once again in the forefront to inspire and ignite the thinking of business leaders with a unique programme on Strategic Thinking conducted by the world's number one custom executive education provider.

The two-day programme in June by DUKE CE focuses on the essential element of Strategic Thinking, giving high-end corporate professionals that boost to help invigorate their business strategy, while becoming e ective business leaders who inspire change.

The CA Sri Lanka – DUKE CE Strategic Thinking Programme was specially designed for managers who head key departments, business units, and regional operations, members of project teams, and middle and senior level executives with the authority to plan and execute strategy in their organisations.

Participants learn how to create a strategic vision that will inspire and empower their team/organization, how to produce strategic intelligence in order to analyze the current strategic position while discovering how to develop compelling strategies that will achieve the vision and objectives of an organization.

The programme is conducted by Nikhil Raval, a Managing Director of Duke CE India Pvt. Ltd., who comes with close to two decades of combined experience in Corporate, Consulting and Academia and Tony O'Driscoll, Executive Director of DUKE CE, who commands an 18-year industry career, having held leadership positions with Nortel Networks and IBM.

'Cautious' implementation of Integrated Reporting

40
years Average mortality rate of corporates

1/3
of companies which existed two decades before the new millennium failed to exist by the year 2000

Amidst intensifying competition and the need for long-term sustainability amongst corporates, the Institute of Chartered Accountants of Sri Lanka is giving leadership to the implementation of concepts of the internationally mooted Integrated Reporting which is currently at pilot stage amongst many countries across the world. President of CA Sri Lanka Arjuna Herath declared that while the concept was 'very valuable' as it focuses in depth on corporate sustainability, generating capital and wealth, Sri Lanka is cautious in embracing the concept outright. CA Sri Lanka is facilitating the adoption of the best of the guidelines as deemed fit for the corporate environment in Sri Lanka.

"There are countries gradually moving into Integrated Reporting, Sri Lanka is cautious as we don't want to jump into a new concept just because there are other countries looking at adopting this. We will develop home grown guidelines that suit best our environment" he told students and academics at the IDeA Night 2014, organised by the Department of Accountancy of the University of Kelaniya. Herath emphasized CA Sri Lanka in its capacity as the national body of accountants and the sole authority to promulgate accounting and auditing standards of the country was doing its independent research to determine the extent the Integrated Reporting concept can add value to Sri Lankan corporates, and the implications of adopting its concepts.

"Therefore we are gradually introducing the concept among the Sri Lankan corporates and as a first step towards this, we included the most appropriate elements in Integrated Reporting criteria in our annual report awards competition last year, which recognized the best corporate reports produced in the country" he noted. Herath disclosed that a separate segment focusing primarily on Integrated Reporting will be added in this year's annual reports competition, to promote the concept and support companies which have already fully embraced Integrated Reporting.

"In Sri Lanka, we don't have many companies which follow the Integrated Reporting concept. However there are a few companies producing integrated reports, and as these companies believe Integrated Reporting is of value, we want them to embrace it and we will recognize them for it. We will not make it mandatory for corporates to produce integrated reports and force it on them, but if they independently find the mechanism valuable, we will encourage and recognize their e orts" he added.

Business School MBA proves popular

The importance of continuing to stay relevant through education, maintaining reputation and respecting values took centre stage at the 2013 convocation of the Business School of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

A large number of students of the CA Sri Lanka Business School were conferred with Master's Degrees from the University of Southern Queensland, Australia and Postgraduate Diplomas in Business and Finance.

It was held under the patronage of Ronnie Peiris, Group Finance Director of John Keells Holdings PLC and Professor Janet Verbyla, Senior Deputy Vice-Chancellor, University of Southern Queensland, Australia.

Students who successfully completed the popular Master of Business Administration and the Master of Project Management from the University of Southern Queensland and the Postgraduate Diploma in Business and Finance were awarded their certificates at the convocation ceremony.

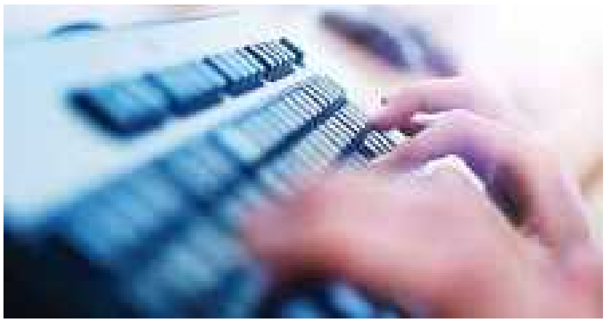
Having been in existence for 12 years, the CA Business School is one of the country's leading business schools providing a diverse range of high-end local and foreign qualifications for the advancement of the Sri Lankan professional.

It is one of the most popular MBA programmes in the country

Both CA Sri Lanka and the University of Southern Queensland share an exceptional association counting over ten long years.

The USQ MBA o ered through the Business School is one of the most popular MBA programmes in the country, while the postgraduate diploma o ered at the institute has successfully been conducted in the country for almost 30 years and is very popular among professionals from both the accounting and non-accounting sectors.

Enhancing IT skills with Certificate in Computerized Accounting



Learn to manage day-to-day finances and enhance your IT skills with a specialized Certificate Course in Computerized Accounting introduced by the Institute of Chartered Accountants of Sri Lanka for the benefit of financial professionals and students.

Having understood the consistently increasing demand for IT-savvy financial professionals in Sri Lanka and abroad, CA Sri Lanka is o ering the certificate programme to help update the IT knowledge of both professionals and students.

The 30-hour course incorporating the Sage 50 software targets accounting professionals, accounting students and members of the public and covers a multitude of areas which will help students and professionals understand the concept of computerized accounting systems, its procedures and how the system can be applied. The certificate programme conducted by the IT Training Division of CA Sri Lanka will give an overview into computerized accounting systems, processing techniques used for computerized accounting and system change over methods.

Special focus will also be given to setting up the general ledger, accounts payable, inventory, accounts receivable, sales taxes and on financial and cash flow budgets, financial reporting and internal control.

Students who complete the programme successfully and the final examination will be awarded a certificate issued jointly by CA Sri Lanka and Perfect Business Solution Services (Pvt) Ltd.

The CA Sri Lanka IT Faculty o ers a variety of programmes from seminars and workshops to Diploma programmes for the benefit of accounting students and accounting professionals.

PBSS, which is the platinum business partner for the Sage software, has licensed CA Sri Lanka to carry out this training programme with the Sage 50 Education License.

Update

CA Sri Lanka hosts Asia and Pacific Accountants Board meeting

The Institute of Chartered Accountants of Sri Lanka recently hosted the Board Meeting and committee meetings of the Confederation of Asian and Pacific Accountants (CAPA), which is the largest regional accounting organisation with a geographical area that spans half the globe.

The meetings held on 22nd and 23rd May 2014 saw the participation of accountants from the Asia Pacific region including Australia, Bangladesh, Canada, China, India, Japan, Korea, New Zealand, Pakistan and Sri Lanka. The CAPA meetings included the Board Meeting, Annual General Meeting, Governance and Audit Committee meeting, Public Sector FM Committee meeting, the Professional Accountancy Organisations Development Committee meeting and the Public Sector Financial Management Committee meeting.

CAPA is the Regional Organisation representing national accountancy organisations across the Asia-Pacific region. Today, CAPA has a membership of 31 accountancy organisations in 23 jurisdictions.

The incumbent President of CAPA is Sujeewa Mudalige, Past President of CA Sri Lanka.

CA Sri Lanka's incumbent President Arjuna Herath was appointed as a board member of CAPA at the Board Meeting held in Colombo.

CAPA has a membership of **31** accountancy organisations in **23** jurisdictions.

The CAPA membership includes Australia, Bangladesh, Canada, China, Fiji, France, India, Japan, Korea, D.P.R Korea, Mongolia, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Samara Region, Samoa, Solomon Islands, Sri Lanka, United Kingdom, United States of America and Vietnam.

CA Sri Lanka also hosted the CAPA Board and Committee meetings in 2012.

CA EVENT CALENDAR

02 July
GEARING UP FOR THE FUTURE
Seminar on Insights to prepare the next generation of leaders to lead your organization to success.
0112352083

04 July
CA MEMBERS QUIZ NIGHT
Indunil – Tel: 2502077

05, 06 July
EXECUTIVE DIPLOMA IN BUSINESS AND ACCOUNTING 2014 - EDBA
Duration: 01 year
Business School
Siloshini - Tel: 2352000 Ext 1207

05 July
OPEN DAY - SCHOOL OF ACCOUNTING & BUSINESS SCHOOL OF ACCOUNTING & BUSINESS
Dinendre - Tel: 2352000 EXT 1115

07 July - 30 July
[37 Standards - 19 Days]
AUDITING STANDARDS SEMINAR SERIES – 2014
Dale - Tel: 2352000 Ext: 1444

08 July
SEMINAR ON HOW QUALITY FINANCIAL REPORTING AND
Appropriate Governance Creates Value for Owners
Samanthi - Tel: 2352000 Ext 1445

21, 22 July
CUTTING EDGE TREASURY MANAGEMENT PROGRAMME WITH EUROMONEY TRAINING
Nuwan - Tel: 2352045

Contd..... 04 August - 27 August
[37 Standards - 19 Days]
AUDITING STANDARDS SEMINAR SERIES – 2014
Dale - Tel: 2352000 Ext: 1444

04 August
POSTGRADUATE DIPLOMA IN BUSINESS AND FINANCE – PDBF
Duration: 01 year
Business School
Ashara - Tel: 2352000 Ext 1203

Contd..... 01 September - 10 September
[37 Standards - 19 Days]
AUDITING STANDARDS SEMINAR SERIES – 2014
Dale - Tel: 2352081

10 September
CONVOCATION CEREMONY - 2014
Main Hall, BMICH
Indunil – Tel: 2502077

Update

CA Sri Lanka, ICTA, SLASSCOM in joint initiative on FAO qualification

ARJUNA HERATH, PRESIDENT OF CA SRI LANKA, RESHAN DEWAPURA, CHIEF EXECUTIVE OFFICER OF ICTA AND VIRENDRA PERERA, CHAIRMAN OF SLASSCOM FAO FORUM EXCHANGED DOCUMENTS FOR THE FINANCIAL ACCOUNTING OUTSOURCING PROFESSIONAL QUALIFICATION. PICTURE ALSO SHOWS ARUNA ALWIS, CHIEF EXECUTIVE OFFICER OF CA SRI LANKA, CHANNA MANOHARAN, COUNCIL MEMBER OF CA SRI LANKA, NILUKSHI THAMBIMUTTU, HEAD OF BUSINESS SCHOOL, CA SRI LANKA, JAYANTHA FERNANDO, PROGRAMME DIRECTOR & LEGAL ADVISOR OF ICTA, SACHINDRA SAMARARATNE, PROJECT MANAGER OF ICTA AND IMRAN FURKAN, EXECUTIVE DIRECTOR OF SLASSCOM.

The Institute of Chartered Accountants of Sri Lanka joined hands with the Information and Communication Technology Agency of Sri Lanka (ICTA) and the Sri Lanka Association of Software and Service Companies (SLASSCOM) to o er a groundbreaking professional qualification for the Financial Accounting Outsourcing (FAO) sector.

The qualification, to be launched later this year, comes at a juncture when Sri Lanka is aspiring to become the Business Process Outsourcing hub.

This Business Services Accounting qualification is expected to give the FAO sector a boost by fulfilling an important need which will produce highly skillful professionals who will steer the FAO sector successfully in Sri Lanka.

Financial Accounting Outsourcing Sector is poised for spectacular growth

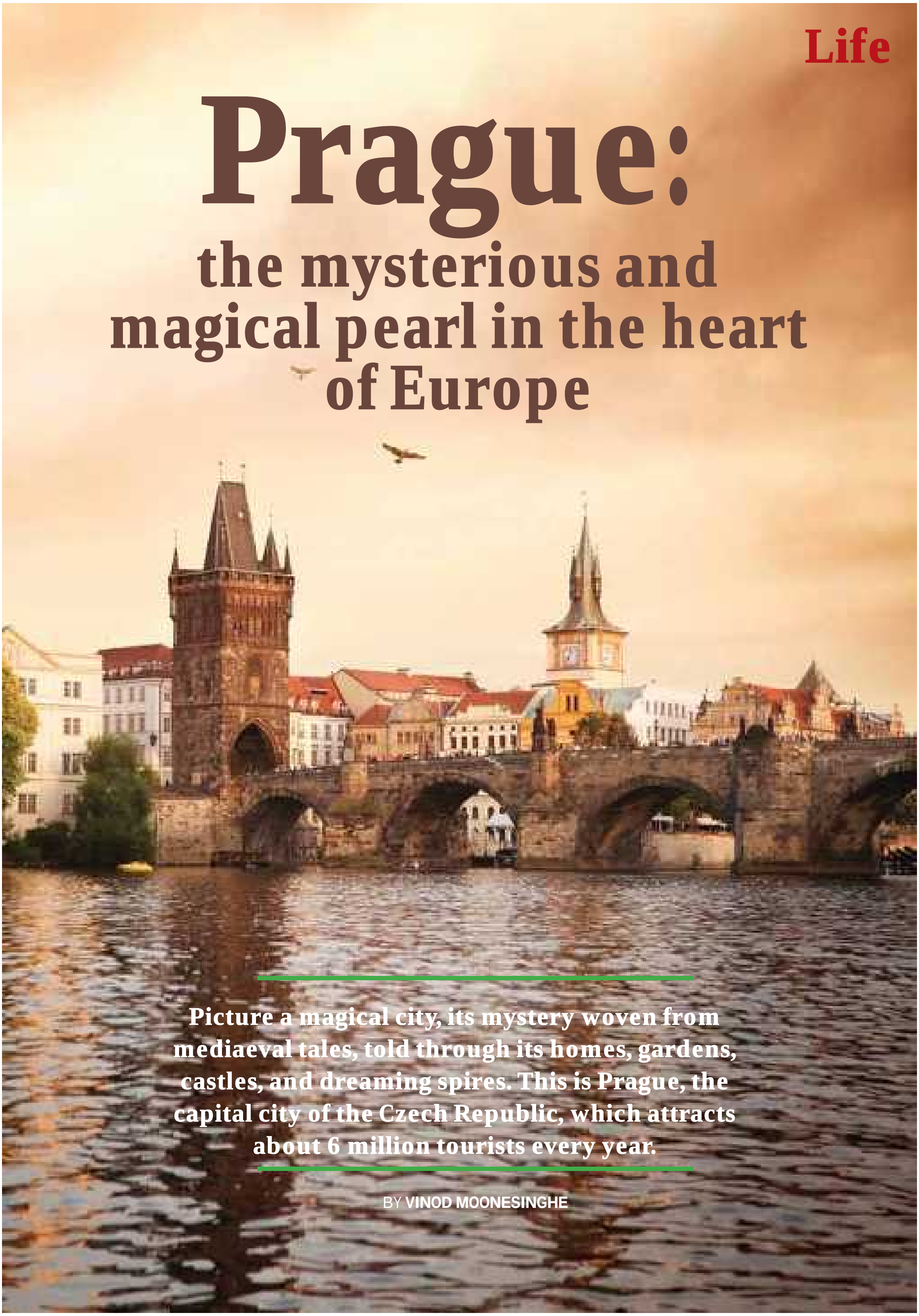
Arjuna Herath, President of CA Sri Lanka, speaking on the landmark venture, said Sri Lanka is known to produce accountants of exceptional ability of international standing having the capacity to serve not only the domestic market but international markets as well.

"This is one of the key attributes as to why our country is a preferred destination for the BPO industry. In order to actively support the country to realize this vision of being the best outsourcing destination in the world, CA Sri Lanka has embarked on a journey with the active participation of the industry body SLASSCOM and the government policy making arm in this area ICTA to create professionals with the right skills and knowledge specifically required for this industry" he said.

Reshan Dewapura, Chief Executive O cer of ICTA said, "In the journey to becoming the knowledge hub of Asia, accreditation of the labour force in specific skill sets is imperative. Sri Lanka as a Center of Excellence for FAO no doubt will greatly benefit from this step taken in the right direction".

Imran Furkan, Executive Director of SLASSCOM noted: "Sri Lanka's Financial Accounting Outsourcing Sector is poised for spectacular growth due to a unique combination of skill sets prevalent in the country, which are of international standards. This qualification will contribute to further raising the bar in terms of quality and quantity of the workforce pool available to absorb the new business volumes that are expected to come Sri Lanka's way in the near future."

Over the past five years, Sri Lanka has also witnessed a growth in the Business Services sector with leading Sri Lankan companies setting up finance and accounting services, while foreign companies have also extended their o shore global operations to Colombo. ■



Life

Prague:
the mysterious and magical pearl in the heart of Europe

Picture a magical city, its mystery woven from mediaeval tales, told through its homes, gardens, castles, and dreaming spires. This is Prague, the capital city of the Czech Republic, which attracts about 6 million tourists every year.

BY **VINOD MOONESINGHE**

TOURISTS GATHERED IN THE OLD TOWN SQUARE OF PRAGUE, WHICH IS ONE OF EUROPE'S BIGGEST AND MOST BEAUTIFUL URBAN SPACES. THE OLD TOWN SQUARE HAS BEEN PRAGUE'S PRINCIPAL SQUARE SINCE THE 10TH CENTURY.

This 'Pearl of Cities', being one of the few in Eastern Europe to have escaped massive damage during the Second World War, bears witness to its long and rich history through a large variety of important buildings and other tourist attractions. It has proved popular as a shooting location, for such diverse films as The Bourne Identity, Eurotrip and The Brothers Grimm. But it is most famed for its association with the mystical, from ancient myths, via Dr Faust to Franz Kafka's surrealism, which has gained it the epithets 'The Mysterious' and 'The Magical'.

Our mother gave my sister and I, when children, a book called Legends of Old Bohemia. Its author, Alois Jirásek (pronounced alloys yi-ra-shek), wrote books and plays to give the Czechs a sense of their own past. Many of his stories revolved around Prague, giving vigour to the magical and mysterious perspective of the city, and held us spell-bound. I visited Prague many years later, viewing the city from the heights in its South-Western suburbs. It is this aspect which I look forward to exploring.

VYŠEHRAD

I started with Vyšehrad (vish-eh-he-rad – 'high castle') which, according to Jirásek, Krok, the patriarch of the Czechs, instructed by the gods, built on a cli on the Vltava River. On his death, his daughter Libuše (li-boo-sheh) ruled there, but it is now a public park. I went up on Vyšehrad's bastions, and was thrilled by the splendid panoramas they a ord of the city and of the river. Below, perched on the side of the cli , was the Bath of Libuše, where she is said to have bathed with her lovers before casting them to their deaths.

I entered Vyšehrad Gardens, inland from the cli , and was elated to see colossal statues of Libuše and her consort, Přemysl (pronounced preh-mi-sul – whom she married instead of casting into the Vltava); and of a warrior woman and her lover (whom she enticed to his death). Adjacent are the neo-Gothic Church of SS Peter and Paul; the ruins of Holy Roman Emperor Charles IV's small Gothic palace, whence mediaeval Bohemian monarchs began their coronation processions; the 11th century Rotunda of St Martin (Prague's oldest standing building); and the Slavin national cemetery, with the graves of 600 personalities, including composers Smetana and Dvořák, and (most interesting for me, as a science fiction fan) the writer Karel Čapek, who coined the term 'robot'.

HRADČANY

Libuše once had a vision of a city on the opposite bank 'whose fame would reach the stars'. Looking North from Vyšehrad's ramparts, I could see it, the Castle District of Prague, Hradčany (har-cha-ni). It contains Prague Castle (the world's largest castle) the city's most popular tourist destination, with Romanesque, Gothic and Baroque edifices. One of its towers is the Daliborka, named after Dalibor of Kozojedy, its first prisoner who, Jirásek says, learned to play the violin, the music of which could be heard in the town, even after his beheading. The dungeons, with their instruments of torture, showed me how cruel mediaeval European nobles could be.

Jirásek calls it 'St Wenceslas' Castle', after 'Good King Wenceslas' of the Christmas carol, who lived there in the 10th century. I went to visit the gothic Cathedral of St Vitus, constructed over the rotunda which St Wenceslas built to house St Vitus' relics, and where his own are entombed. The interior, with walls covered with beautiful frescos, stained-glass windows and soaring ceilings, looked stunning.

I enjoyed Golden Lane, a street of tiny dwellings, which house expositions of the artisanal life of yore. They were once occupied by goldsmiths, but I prefer the legend that the denizens were alchemists em-

Many of his stories revolved around Prague, giving vigour to the magical and mysterious perspective of the city

ployed by Rudolph II to find the Philosopher's Stone and create gold.

Like most tourists, I walked across the Vltava on the Charles Bridge – pedestrian-only, it is full of hawkers and flanked by statuary of many saints. I shivered at the thought of the magic sword of the legendary hero Bruncvík (Brun-ch-vik), buried underneath. Jirásek wrote that when the Czechs are attacked by enemies, St Wenceslas and his knights, who sleep under Blanik mountain, will awaken and come to their aid, seizing this sword, magically. The Old Town is the heart of Prague, its crooked streets flanked by mediaeval buildings. At its centre is the Old Town Square, with the Old Town Hall and its elaborate 15th century Astronomical Clock, which I particularly wanted to see. Jirásek said that a master craftsman, Hanus built the intricate clock, but the Mayor and Town council had him blinded, so he could not build another; he had his revenge by stopping the clock as he died.

My science-fantasy leanings took over as I looked for Rabbi Loew's Golem – an animate automaton created from clay

THE FAMOUS MEDIAEVAL STREET OF PRAGUE, THE GOLDEN LANE EARLY MORNING.

It was Jirásek who tempted me with his stories into Josefov, the Jewish Quarter, one of the best-preserved Jewish ghettos in Europe. Adolf Hitler, while eliminating the living Jews, apparently preserved the area as the site for an 'exotic museum of an extinct race', and brought Jewish artefacts there from all over his conquered territories, now displayed at the Jewish Museum. I loved the Hebrew Clock, which runs anti-clockwise, on the Old Jewish Town Hall.

My science-fantasy leanings took over as I looked for Rabbi Loew's Golem – an animate automaton created from clay, a Judaic robot which went berserk (as robots did in pre-Asimov literature) and the Rabbi had to deactivate it, hiding it in the Old New Synagogue. I didn't find it, but statuettes of it are common souvenirs.

In the centuries-old 'New Town' is Charles Square, with its New Town Hall, from the windows of which Praguers, historically, threw unpopular people. Two of its corners harbour statues, of the Rabbi Leow and the Iron Man – a Darth Vader-like, ghostly knight who killed his lover. Also in the square is the baroque Faust House where, Jirásek tells us, Dr Faust lived and, in exchange for knowledge and worldly pleasures, sold his soul to the Devil, who later dragged him to hell through a hole in the ceiling.

SHOPPING

An abundance of souvenir and handicraft

CHURCH OF SS PETER AND PAUL

ASTRONOMICAL CLOCK IN THE OLD TOWN SQUARE

shops can be found throughout the Old and New Towns, where one can buy antiques, marionettes, and golems. For more serious shoppers Prague has a tradition of gold and silver jewellery, and also has high-quality amber and rubies mined in the country. Onion-ware Porcelain and ceramics, tableware and curios, as well as Bohemian crystal are also Prague specialities. Genuine Bohemian crystal is heavier than normal glass, resonates more when tapped and shows a rainbow spectrum against light. It can be seen at the Moser museum in the Old Town Square – Moser once supplied crystal to the Hapsburgs and the Windsors. There are several shops nearby which sell excellent ceramics and crystal, but I found it worthwhile searching outside the city centre for bargains. Music CDs, especially of Dvořák, Janáček and Smetana, are fairly inexpensive and widely available.

FOOD AND DRINK

The rice-and-curry of the Czechs is roast pork, sauerkraut and dumplings, and there is no shortage of restaurants serving these basic dishes, but they get more expensive the closer one gets to the Old Town. There are several restaurants which serve international menus, including Indian and vegetarian, as well. The Danube marks the Northern boundary of the co ee-drinking countries, and while you can get kava (co ee), the Czechs drink tea, in a wide variety of flavours – I saw a profusion of Cejlonski čaj (say-lon-ski chai – Ceylon Tea) in tea shops.

Bohemia was a centre of lager beer production, due to the proximity of barley and hops, and has the highest per-capita consumption. The best beers are found outside Prague, in Plzeň (pl-zen-ye), home of Pilsner and České Budějovice (chess-kay bud-yeh-o-vi-tze), where Budweiser originated. However, Prague has its own excellent beers, which can be tasted in an array of pubs. There is also a Beer Museum, where one can taste an assortment of lagers and ales from micro-breweries, a Czech forte. The Czech spirit is Slivovitz, which is made mainly in Moravia, to the South. However, it is freely available in Prague, which is also famous for 'Green Fairy' Absinthe.

The best beers are found outside Prague, in Plzeň,home of Pilsner and České Budějovice, where Budweiser originated

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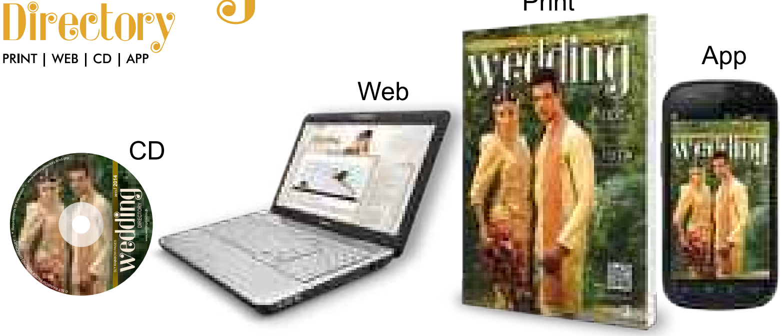

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