

Written by Piyoshila

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In its capacity as the country's sole authority in promulgating accounting and auditing standards, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has embarked on a fresh mission which aims at enhancing the financial structure of over 30,000 Small and Medium Enterprises (SMEs) across the country, which plays a significant role as the backbone of Sri Lanka's fast developing economy.



Addressing a round table discussion in Colombo recently which focused on the recent exposure draft of the International Financial Reporting Standard (IFRS) for SMEs, CA Sri Lanka's President, Arjuna Herath disclosed that access to finance is one of the biggest challenges SMEs face, and due to this, they have difficulty to sustaining the business resulting in more than 40% of SMEs ceasing to exist within ten years of operation.

Of the 30,000 registered SMEs in the country, approximately 75% are based outside the Western Province, with rural SMEs contributing as much as 12% to the country's Gross Domestic Product (GDP), of which 78% is for agricultural GDP, apart from providing 36% of industrial employment.

“Despite such importance to the economy, SMEs face many constraints, of which lack of finance is the strongest,” Herath noted, adding that CA Sri Lanka is taking all necessary steps to play an active role to help SMEs overcome this significant issue they face.

“As a first step we are revisiting the SME standard that we have issued to ensure that it is not burdensome and not too onerous for SMEs to comply with,” he said, while assuring that the primary strategy of the institute was to ensure that the accounting standard was SME friendly, which could be easily adopted with less hassle and cost.

SMEs can be the backbone of the economy and make a significant contribution to the country's economy, and under such a context it was important to ensure that SMEs follow an accepted financial structure with accurate financial statements.

“The standard for SMEs is very important, as it addresses a range of underlying issues including how to overcome the current situation where SMEs fail to produce reliable financial statements, because most of them maintain financial records in a very informal manner,” he added.

He noted that the main reasons why SMEs do not have easy access to formal finance is due to the lack of formality in running the business and the indiscipline in financial record keeping which leads to financial institutions not having confidence and not being able to rely on these SMEs to provide them with reliable information whether they are financial statements or business data.

“Therefore, we believe if these SMEs put in place processes to keep accurate financial records and produce reliable financial statements as per the required standards, a significant portion of the battle to access finance is won,” Herath said.

He noted that CA Sri Lanka is very keen to facilitate SMEs to get to the discipline of preparing accurate financial statements as per acceptable standards so that their credibility will be enhanced so much and their contribution to the development of the country can be enhanced further.

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Herath disclosed that CA Sri Lanka, despite being a local accounting body, played a very influential role at an international level in revising standards that are issued by the global accounting body, the International Accounting Standards Board (IASB).

“CA Sri Lanka makes significant contribution to the standard setting process. So the standards issued at a global level comes with a local say,” he said, while adding that input from local stakeholders were important so CA Sri Lanka can communicate the necessary recommendations from Sri Lankan SMEs to the International Accounting Standards Board, which is responsible for developing the International Financial Reporting Standards.



Subject expert, Sanath Fernando who made a detailed presentation during the roundtable discussion, emphasized that the accounting standard which specifically focuses on SMEs, will help the small and medium enterprises in the country obtain due recognition.

“If capital providers understand and have confidence in the financial figures, an SME’s ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves,” he noted.

Fernando, who is a member of the Implementation Group of IFRS for SMEs, the advisory body

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to IASB on SME financial reporting emphasised that the Sri Lanka Financial Reporting Standard for SMEs is good financial reporting made simple and any entity that does not have public accountability, no matter the size of the organization, can adopt it.

While highlighting that the SLFRS for SMEs meant better quality reporting, which has been tailored keeping in mind the capabilities and needs of SMEs, Fernando noted that in the event an SME was aspiring to become a bigger company, a sound financial is a must, and the SFLRS for SMEs helps with this objective.

The roundtable discussion also featured a panel discussion featuring Nishan Fernando, Managing Director of BDO Consulting (Pvt) Ltd, Tishan Subasinghe, Partner of BDO Partners, Indika Ranaweera, Assistant Vice President of SME & Micro Finance – NDB Bank and Gamini Uduwara Arachchi, Partner of Uduwara Arachchi Associates.

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