

# ABACUS

INTELLIGENCE AND INSIGHT FROM CA SRI LANKA

July 2019 | [www.casrilanka.com](http://www.casrilanka.com)

## Code of Ethics

Reyaz Mihular

## Next Generation Leader

Jani Ganeshan

## Calculative Insights

Professor Samantha Senaratne

## The Way Forward

### Professor Lalith Samarakoon

Secretary-General & Chief Economist  
National Economic Council of Sri Lanka



Unprecedented times call  
for extraordinary measures

CA

THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

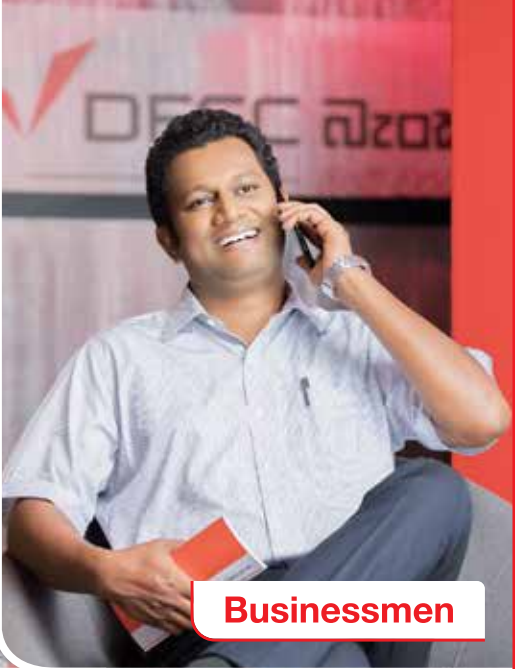




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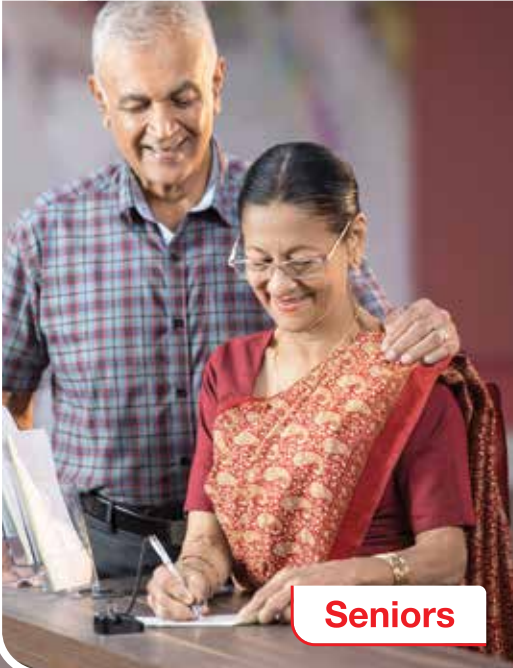
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**Businessmen**



**Youngsters**



**Seniors**



**Students**

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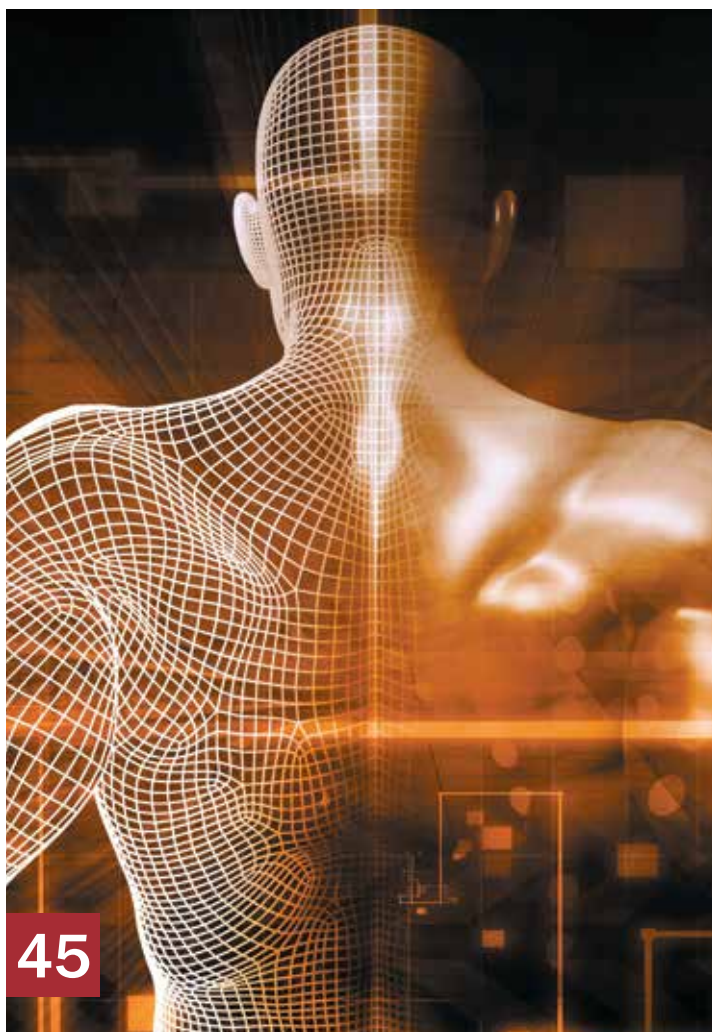
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## A word from the President



# Rise Up Sri Lanka!

**A**s we pick up the pieces and march forward, it's time for us to reflect on how it is becoming increasingly important to strengthen unity among all Sri Lankans. The Easter Sunday attacks on innocent unarmed people were carried out by an extremist group of a few people without an understanding of the value of human beings.

This should not be viewed as an attack by Muslims. Nevertheless, the subsequent attacks on Muslims in some parts of the country cannot be acceptable by any standard.

The economy has also been dealt a catastrophic blow and it's our responsibility to work with all communities to help it bounce back in the shortest time possible. As chartered accountants, we undoubtedly have an important role to play in these difficult times.

Almost every business – from small-scale and home based businesses to multinationals – has been adversely affected by the current situation. We as a nation still mourn the loss of lives and destruction that has befallen us; but we must also move forward as a country and one nation, to rebuild and rise up.

As professionals, it's important for us to band together as a unified force and lead the way. We must offer our expertise to the nation to develop long-term strategies to revive every sector including tourism.

It's worth noting that the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) deliberated and offered guidance on the accounting treatment for the recent concessions granted to the tourism industry following the Easter Sunday attacks.

We must also realise that our nation is calling on us; and we must offer every resource available and every skill we possess to help our country get through this difficult time.

Despite the darkness, we must also focus on the light, which is why we're happy to share some important initiatives launched by the Institute during the first quarter of this year.

Female accountants comprise around 32 percent of our membership. Accordingly, a considerable number of female chartered accountants are providing leadership to the



business world. To increase female participation, the Institute took steps to launch the Women Empowerment and Leadership Development Forum. This aims to encourage female members to step into more leadership roles and develop a 'board ready women's directory' consisting of senior female CA Sri Lanka members who hold senior executive positions and are ready to sit on the boards of companies.

Furthermore, in continuing to offer relevant and modern services to our stakeholders including members and students, the CA Sri Lanka Library launched its e-library.

The e-library consists of a range of ebooks spanning accounting, finance, business, strategic management, human resource management, marketing management and many other subjects. Steps will be taken to continuously upload new ebooks to offer members a variety of reading materials.

Meanwhile, the Institute has also decided to develop an automated audit tool kit for the benefit of small and medium practitioners (SMPs), to promote an efficient audit service and ensure quality documentation.

Techno Fair 2019 was held in May and is the first ever digital expo in the country.

Over the next few months as well, the Institute has lined up a series of important events for the benefit of members and students.

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## **As professionals, it's important for us to band together as a unified force and lead the way**

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In conclusion, I take this opportunity to assure you that we will enter into agreements with several other reputed professional accountancy organisations in the coming months.

Moreover, we're looking to strengthen our network of members by establishing chapters around the globe. We have already established chapters in Jeddah in Saudi Arabia, and Melbourne and Sydney in Australia, in addition to existing chapters mainly in the Middle East.

As we move on, I'm certain that our members will come forward to help our country get through these difficult times by utilising their unique skills to strategise, and help corporates forge ahead and revive the national economy.

**Jagath Perera**

President

Institute of Chartered Accountants of Sri Lanka





## The editorial

# Regaining Sri Lanka

**A**s Sri Lanka strives to regain a sense of normalcy and regenerate what is seemingly a downbeat economic outlook following the Easter Sunday attacks, the business community's role not only in driving change but also speaking out against what ails the nation has become a *sine qua non*.

While the government continues to assure the tourism industry in particular of assistance at the national level, questions are being raised in business circles and various forums about the need to walk the talk with a greater sense of urgency.

In addition, it is widely accepted that the nation will face new challenges as the countdown to possibly provincial council elections and certainly a presidential poll gathers momentum – this, amid a continuation of political uncertainty and at times, instability.

In contrast, the private sector is beginning to take purposeful steps to help the country move forward. Recent activities include the

formation of the Sri Lanka Tourism Alliance – which comprises tour operators and hoteliers – and the Sri Lanka is Positive campaign.

Through these and other similar efforts, corporates are looking to revive a key industry and related sectors, and also encourage businesses to play a part in regenerating the economic momentum there once was, as well as ensuring that the nation is better prepared for unexpected events in the future – after all, we live in an uncertain world as far as the scourge of terrorism and the wrath of Mother Nature go.

Meanwhile, there's been good news too with Sri Lanka's image as a must-visit destination being reaffirmed by the likes of Lonely Planet and Travel + Leisure, but such accolades call for both the government and private sector to act to maintain the island's brand image.

In keeping with the concept of pursuing corporate initiatives to generate economic growth, this edition of The Abacus covers areas of interest to local businesses – including the importance of adopting international standards and regulations to attract investors.

May Sri Lanka prosper as a truly united nation.



# Journal Committee



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## REGISTRATION

ISSN 2779-3860



The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is known to produce a brand of unique and versatile professionals with the ability to steer any business successfully. CA Sri Lanka has 6,000 members based locally and globally, who are known for their professional integrity, exceptional technical and perceptive skills, as well as financial discipline and out-of-the-box thinking, which help them add value to the organisations that they serve.

The portfolio of CA Sri Lanka members comprises chairmen, partners, managing directors, vice presidents, CEOs

and CFOs among other high profile designations who serve across top corporates in and outside Sri Lanka.

In its capacity as a national professional accountancy organisation in the country, CA Sri Lanka continuously focusses on enhancing the professional skills of its members, ensuring that they continue to play a significant role in partnering businesses, and thereby contribute to the success of the profession as well as the public and private sectors, and strengthen the national economy of Sri Lanka.

CA Sri Lanka has also been identified as a preferred and recognised destination for accountancy education in the country, and as a testament to this, the institute currently has over 40,000 students who are aspiring chartered accountants.

# Economic snapshot

## MACRO TRENDS

FOREIGN EXCHANGE	26.04.19	24.05.19	21.06.19
US Dollar	175.02	176.68	176.68
UK Pound	225.81	223.74	224.72
Australian Dollar	122.96	121.66	122.47
Euro	194.92	197.56	199.68
Indian Rupee	2.50	2.54	2.47
Japanese Yen	1.57	1.61	1.65
Singaporean Dollar	128.63	128.01	130.38

GOLD & OIL FUTURE	26.04.19	24.05.19	21.06.19
Gold price per oz. (US\$)	1285.90	1,284.60	1,399.00
Crude oil prices average (US\$/barrel)	70.71	73.21	62.56

INTEREST RATES	26.04.19	24.05.19	21.06.19
Prime lending weekly average (PLR)	12.24	11.93	11.53
Standing deposit facility	8.00	8.00	7.50
Call money weekly average	8.53	8.48	7.96
Sri Lanka Inter Bank Offered Rate (SLIBOR) - 3 months	10.64	10.09	9.68
Sri Lanka Inter Bank Offered Rate (SLIBOR) - 12 months	11.86	11.88	11.51

GOVERNMENT SECURITIES	26.04.19	24.05.19	21.06.19
Treasury bill yield (TBR) - 3 months	9.00	8.51	8.38
Treasury bill yield (TBR) - 12 months	9.91	9.44	8.86
Three-year bonds	10.72	10.72	10.72

PRICE INDICES	Apr 19	May 19	June 19
Colombo Consumers' Price Index (CCPI) - Headline	127.0	129.0	130.2
Annual average change (%)	4.1	4.2	4.2
Point-to-point change (%)	4.5	5.0	3.8
Colombo Consumers' Price Index (CCPI) - Core	133.1	134.2	134.4
Annual average change (%)	4.2	4.4	4.7
Point-to-point change (%)	5.5	6.2	5.8

TRADE INDICES	Feb 19	Mar 19	Apr 19
Total export value	136.6	158.2	111.1
Total export quantity	127.4	195.8	110.7
Total export unit value	107.2	80.8	100.3
Total import value	128.2	154.7	142.8
Total import quantity	143.2	170.8	154.2
Total import unit value	89.5	90.6	92.6

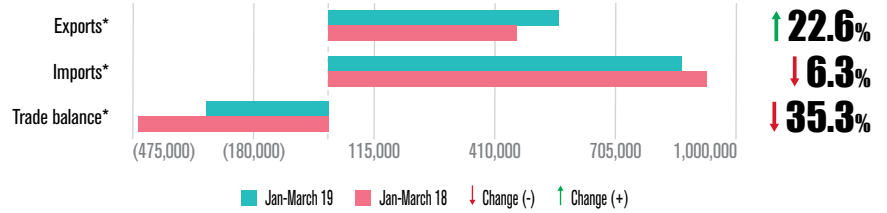
MEDIA SERVICES RESEARCH (CENTRAL BANK OF SRI LANKA)

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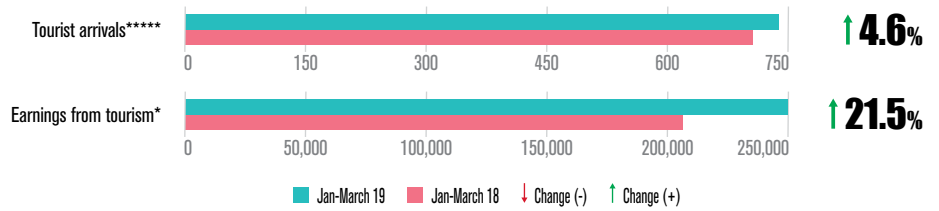


## ECONOMETER

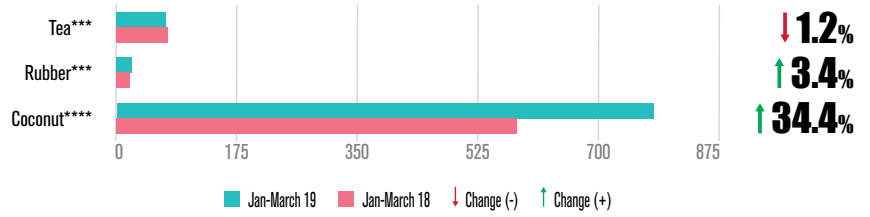
### EXTERNAL TRADE



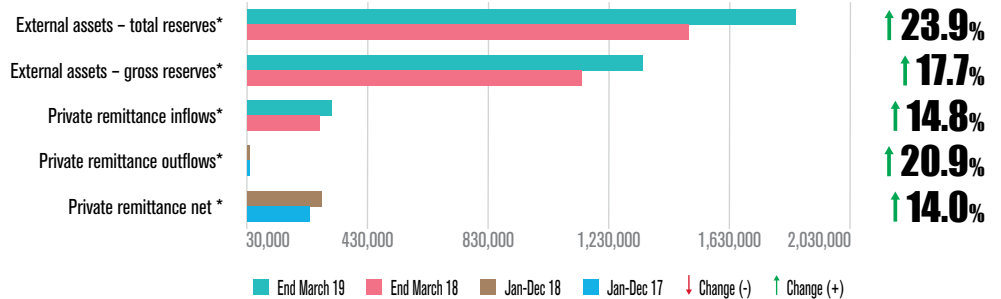
### TOURISM



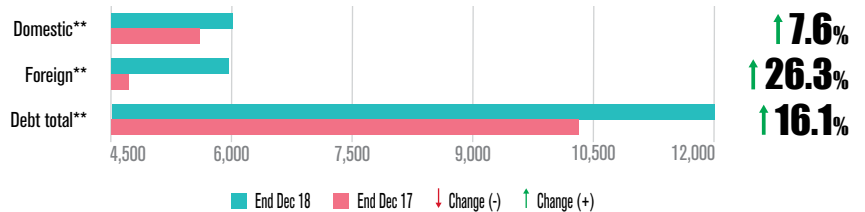
### AGRICULTURAL PRODUCTION



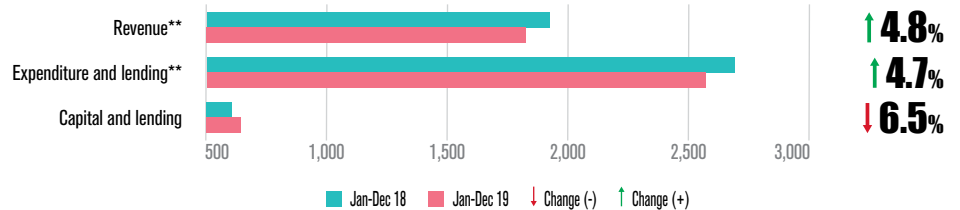
### EXTERNAL FINANCE



### GOVERNMENT DEBT



### GOVERNMENT FINANCE

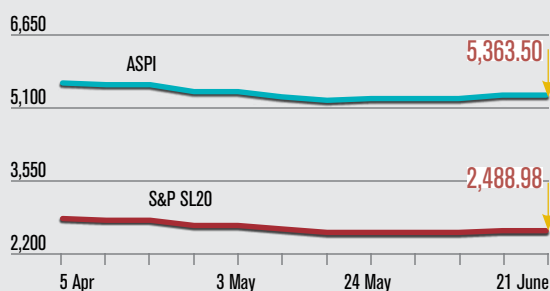


\* Rs. million    \*\* Rs. billion    \*\*\* Million kg    \*\*\*\* Million nuts    \*\*\*\*\* 000s

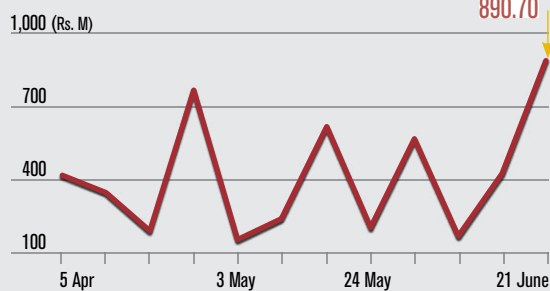
# Bourse overview

## MARKET INDICATORS

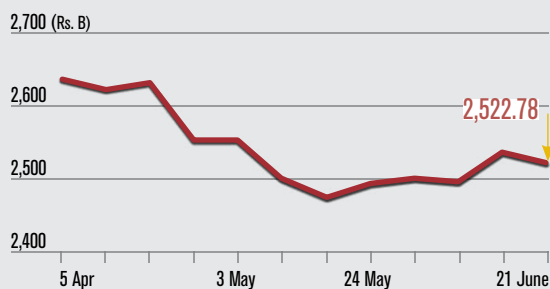
### INDEX



### DAILY TURNOVER (AVERAGE)



### MARKET CAPITALISATION



## HIGHEST WEEKLY GAINS

WEEK ENDING	COMPANY	VWA* Open (Rs.)	VWA* Close (Rs.)	CHANGE (Rs.)	CHANGE (%)
26-Apr-19	Printcare	30.10	34.60	4.50	15
24-May-19	Lucky Lanka Milk Processing [X]	0.50	1.00	50.00	100
21-Jun-19	Tess Agro	0.40	0.50	0.10	25

\* Volume Weighted Average

## NEWS HIGHLIGHTS

**Citizens Development Business Finance** initiated a process of amalgamation with Unisons Capital Leasing and Fortune Properties where the company's shareholding is 90.38 percent and 99.98 percent respectively as required by the Central Bank of Sri Lanka. Subsequent to the amalgamation, the surviving entity will be Citizens Development Business Finance.

**East West Properties** entered into a share purchase agreement with Hotel Properties (West Asia), for the sale of 71.82 percent of equity capital held in Weligama Bay Marriott Resort & Spa, for approximately US\$ 15.93 million.

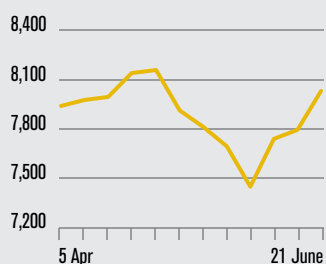
**Senkadagala Finance** announced that it is in discussion with Eagle Proprietary Investments, for the acquisition of Candor Asset Management, as reported in the media. However, Senkadagala Finance stresses that an agreement has not been reached, and that the matter is still under consideration by its board of directors.

**Browns Investments'** subsidiary BI Commodities and Logistics acquired a 67 percent stake in Grey Reach Investment for US\$ 30 million. Grey

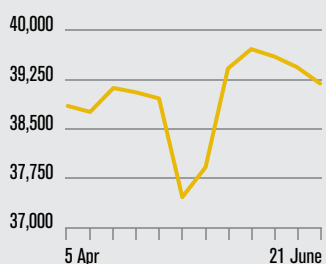


## FOREIGN STOCK MARKET REVIEWS

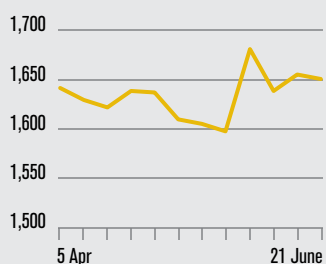
### NASDAQ COMPOSITE



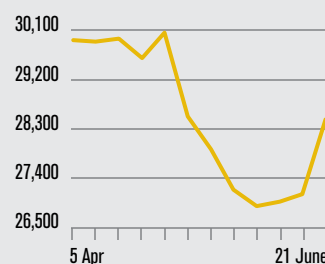
### BOMBAY SENSEX



### KUALA LUMPUR COMPOSITE



### HANG SENG INDEX





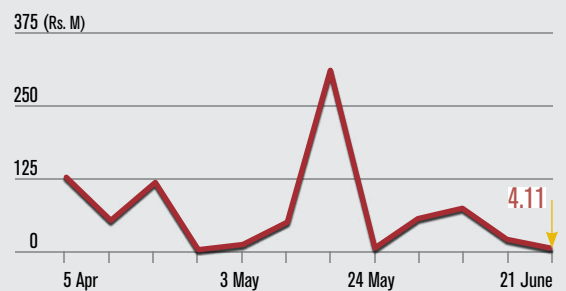
### HIGHEST WEEKLY LOSSES

WEEK ENDING	COMPANY	VWA* Open (Rs.)	VWA* Close (Rs.)	CHANGE (Rs.)	CHANGE (%)
26-Apr-19	SMB Leasing [X]	0.30	0.20	-0.10	-33
24-May-19	On'ally Holdings	100.00	20.00	-80.00	-80
21-Jun-19	SMB Leasing [X]	0.30	0.20	-0.10	-33

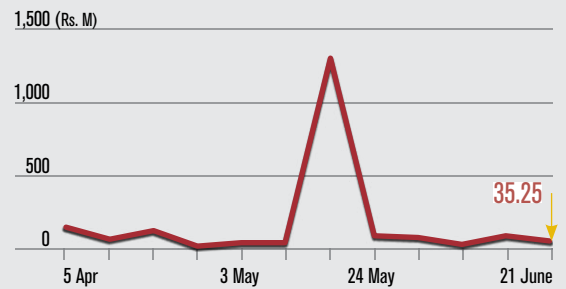
\* Volume Weighted Average

### MARKET INDICATORS

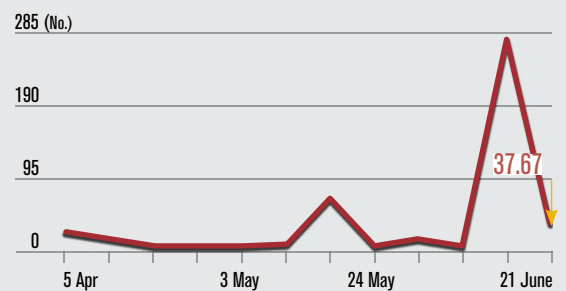
#### FOREIGN PURCHASES



#### FOREIGN SALES



#### SHARE VOLUME

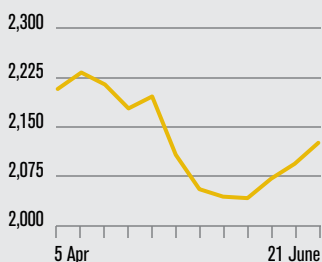


Reach Investment has a 75 percent investment in Sunbird Bioenergy, which owns a sugar cane plantation and factory with an annual production capacity of 85 million litres of biofuel. It also operates a 32 MW renewable energy power plant.

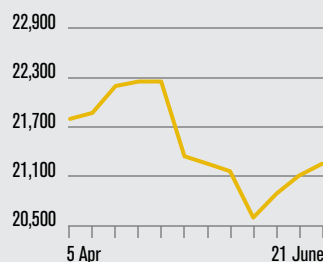
**Sunshine Holdings'** subsidiary Estate Management Services has disposed of 120.7 million ordinary shares in Hatton Plantations, for a purchase consideration of Rs. 1 billion (at 8.30 rupees a share) by Lotus Renewable Energy – a part of Singapore based energy group G&G, which has already invested in hydropower projects in Sri Lanka.

**Vidullanka** announced the completion of construction of the 3.30 MW Dehiattakandiya Dendra Power Plant in Ampara by Vidul Biomass, a joint venture by Vidullanka and OC Energy Lanka. The plant is expected to generate 22.0 GWh of electrical energy annually, utilising sustainably grown fuel wood. OC Energy Lanka is a fully owned subsidiary of Obayashi Corporation, one of the five largest companies in Japan's construction industry. Dehiattakandiya Dendra Power Plant is the first non-hydropower plant to be developed by Vidullanka.

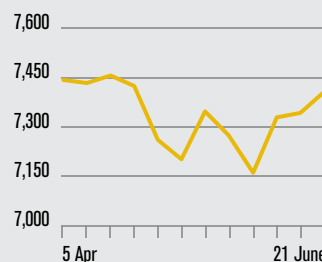
#### KOSPI COMPOSITE INDEX



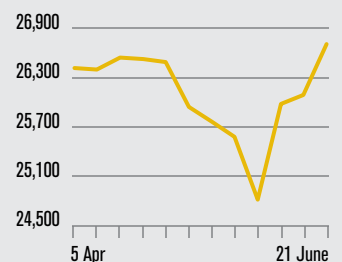
#### NIKKEI 225



#### LONDON FTSE 100



#### DOW JONES INDUSTRIAL AVERAGE



## Need for tax ombudsman highlighted at tax oration



Dr. K. Kanag-Isvaran delivering the keynote speech at the Institute of Chartered Accountants of Sri Lanka's 22<sup>nd</sup> Annual Tax Oration.



A section of guests at the event.



CA Sri Lanka President Jagath Perera delivering the welcome speech.



Faculty of Taxation Chairperson Shamila Jayasekara providing an overview of the tax oration.

The 22<sup>nd</sup> Annual Tax Oration organised by the Institute of Chartered Accountants of Sri Lanka was held in February under the theme 'The Tax Collector and the Rights of the Taxed.' The keynote speech was delivered by President's Counsel Dr. K. Kanag-Isvaran who criticised the practice of imposing tax changes through government gazettes and highlighted the need for a tax ombudsman.

Addressing an audience of chartered accountants from the public and private sectors, he said that lawyers and chartered accountants were allies because of their complementary perception and approach in protecting taxpayers from tax collectors.

Kanag-Isvaran declared that a concern that needed to be addressed was the absence of "proper mechanisms to articulate and lobby the interests and concerns of the body of taxpayers in general, and of tax reform in particular with the tax policy makers and the government on an ongoing basis."

He explained that the concept of a tax ombudsman had been introduced in Sri Lanka in Budget 2005 and the office has remained vacant since the completion of the tenure of the first holder of the office.

Kanag-Isvaran asserted that there is an urgent need to appoint a tax ombudsman as a result of the changes in the income tax regime and implementation of the Inland Revenue Department's (IRD) Revenue Administration and Management Information System. In his view, this will help protect the rights of taxpayers.

Citing the goals of the appointments of tax ombudsmen in countries such as Pakistan, South Africa, Canada and India, he noted that this would help Sri Lanka achieve a "balance that will enhance the degree of equity and fairness in tax administration."

Moreover, he stressed the importance of transparency in the government's use of taxes: "Accountability is mandatory. Reasons for and uses of collected taxes

should be made available to the public and this in turn brings accountability. Hence, one cannot deny that 'representation' is one of the most significant rights of the taxpayer."

In his concluding remarks, Kanag-Isvaran quoted former US President Ronald Reagan who pointed out that "the problem is not that the people are taxed too little. The problem is that government spends too much."



Founding member of the Institute of Chartered Accountants of Sri Lanka Esmond Satarasinghe greeting Kanag-Isvaran. Satarasinghe sponsored the orator's medallion.



## Talent scholarship for Interact District Representative



CA Sri Lanka President Jagath Perera presenting the institute's scholarship to Interact District 3220 newly elected District Interact Representative Wiranya Divitotawela in the presence of the Chairman of the Media and Communication Committee Laknath Peiris at Temple Trees.

Recently elected District Interact Representative Wiranya Divitotawela was awarded a scholarship by CA Sri Lanka in recognition of her talent at the 28<sup>th</sup> Interact District Conference.

The institute's President Jagath Perera conferred the scholarship in the presence

of CA Sri Lanka Chairman of the Media and Communication Committee Laknath Peiris.

Held at Temple Trees in March, the conference is one of the most important annual events of Interact District 3220, Sri Lanka and Maldives, which is Rotary

International's service club for young people. The event was attended by over 1,000 Interactors and Rotarians between the ages of 16 and 20, from Colombo, Kandy, Kurunegala, Galle and Jaffna.

CA Sri Lanka served as the educational sponsor of the conference with officials explaining the importance of the institute's qualification to the Interactors and Rotarians in attendance. This is only one of the numerous educational initiatives that the institute has supported as part of its efforts to help students understand the importance of acquiring a recognised and relevant qualification in the field of accounting.

To this end, the officials also highlighted the role of chartered accountants in organisations in terms of adding value and aiding long-term sustainability despite growing competition. It was also noted that the importance of this role has led to local and global demand for CA Sri Lanka members as a result of their ability to lead businesses successfully.

CA Sri Lanka's membership comprises chairmen, partners, managing directors, vice presidents, CEOs and CFOs.

## Speech craft programme to foster communication skills

The institute recently conducted a 10 day speech craft programme with Toastmasters International for its corporate level students to inculcate important communication and leadership skills, to enable them to communicate effectively as they work towards becoming chartered accountants.

As part of CA Sri Lanka's initiative to enhance the communication and leadership skills of aspiring chartered accountants, the complimentary programme looked to improve participants' effective public and presentation skills, build confidence, as well as sharpen thinking and comprehension skills.

Addressing the event, CA Sri Lanka President Jagath Perera emphasised that the institute looks to produce chartered accountants for the global as

well as the local market, adding: "Therefore, we need to compete at a global level and ensure that our products are fit for such a market."

Perera noted that CA Sri Lanka launched a series of programmes including the speech craft programme and a workshop centred on financial report writing to enable students to gain a deeper understanding of the importance of communication skills.

This focus is set to ensure that when the students qualify as chartered accountants, they will also have the ability to communicate eloquently even with non-accountants who may not understand certain accounting and financial methodologies.

"These programmes are meant to enhance your standing as

you progress professionally in the future," Perera explained.

"If you don't take advantage of such programmes, you'll not move forward," he added.

Furthermore, CA Sri Lanka's

President pointed out that as an institute, CA Sri Lanka's aim is to ensure that it continues to produce "the right and relevant product for the local and global market."



CA Sri Lanka speech craft programme in session.

## Launch of forum to promote female leadership

The Women Empowerment and Leadership Development Forum was recently launched by CA Sri Lanka in a bid to encourage more female chartered accountants to step into leadership positions and support their career progression.

Held under the theme ‘Be visible, it’s a career not a job,’ the event was attended by female chartered accountants who also participated in activities that enabled them to draw on personal experiences and devise strategies to keep women engaged in a productive career.

CA Sri Lanka President Jagath Perera addressed the event, observing that while the institute’s membership comprises 32 percent of females, not all are employed. Stressing the importance of enforcing a mechanism to absorb women into the workforce, he urged: “We need to bring them back so that they will be actively and directly involved in the development of the country.”

Women Empowerment and Leadership Committee Alternate Chairperson Anoji De Silva said that despite constituting 51.6 percent of the population, only about a third of the labour force is composed of women.

“If we want a productive and developed country for our children, we must increase the female working population in Sri Lanka,” she asserted.

A correlation between the level of edu-



**The Institute of Chartered Accountants of Sri Lanka Women Empowerment and Leadership Development Committee.**

**Front row (from left to right):** Thamali Rodrigo, Portia Jayamaha, Chairperson Aruni Rajakarier, Alternate Chairperson Anoji De Silva, Chamila Cooray, Maryam Marikkar, Subashini Munasinghe and Pyumi Sumanasekara.

**Back row (from left to right):** Jani Ganeshan, Pranadhi Fernando, Fathima Shihara Jameel, Sambavi Kanagasabapathy, Nishani Perera and Vindya Cooray.

cation and participation in the workforce was also highlighted as according to De Silva, 80 percent of women with higher education enjoy more productive careers.

Furthermore, she explained that the diverse skills and knowledge acquired in the field of accounting served as training for a productive career rather than being merely a job.

The Women Empowerment and Leadership Development Committee primarily focusses on four initiatives – viz. capacity building, and the enhanced visibility of female members and students; developing a Board Ready Women’s Directory con-

sisting of senior chartered accountant female members who hold senior executive positions and are ready to serve on boards; developing a gender parity frame; and obtaining the support of senior female members in mentoring young females chartered accountants.

Committee member Thamali Rodrigo noted that less than two percent of female CA Sri Lanka members currently serve in board positions. As such, the directory is expected to help improve the visibility of the institute’s female members and enable them to enjoy professional success at board level.



A section of the audience comprising CA Sri Lanka’s female chartered accountants.



Women Empowerment and Leadership Development Committee Alternate Chairperson Anoji De Silva lighting CA Sri Lanka President Jagath Perera’s candle to ceremoniously launch the forum, while Vice President Manil Jayasinghe, CA Sri Lanka Council members Heshana Kuruppu and Sanjaya Bandara, and committee Chairperson Aruni Rajakarier look on.



# Applied Accounting Degree records highest intake



**From left to right:** School of Accounting and Business Deputy Manager of Administration (SAB) Jennifer Cooray, SAB Registrar Wijerathne Banda, SAB Director Professor Sanath Dhammika, CA Sri Lanka President Jagath Perera, Vice President Manil Jayasinghe and Secretary Prasanna Liyanage.

The institute recently recorded the highest intake of students in its BSc Applied Accounting degree with over 250 registrations for the programme. CA Sri Lanka President Jagath Perera noted that the programme is being improved continually and enjoys a remarkable level of popularity among the public.

Speaking at the inauguration ceremony of the programme's 12<sup>th</sup> intake, he said that the main measure of an institute is the level of its students' employability following the completion of a professional or academic programme.

"In this regard, CA Sri Lanka scores very highly," he assured, adding that graduates of the BSc Applied Accounting degree and students who have undertaken the institute's chartered accounting programme are certain to be employed.

Highlighting the importance of accounting in everyday life, Vice President Manil Jayasinghe stated that finances influence the operations of organisations from forming to executing strategies, as well as reporting and communicating those strategies.

"People tell me without engineers the world won't survive and it will not witness any innovations or new products. But when an engineer comes up with a new product, it is finance professionals who help secure the necessary funds to develop the product," he asserted.

Furthermore, Jayasinghe pointed out that over the six decades since the establishment of CA Sri Lanka, it has produced many accounting professionals of whom a large share hold senior positions in companies.

The CA Sri Lanka School of Accounting and Business was established to conduct the BSc Applied Accounting degree with the approval of the University Grants

Commission. Its student base exceeds 1,100 students with over 300 having graduated since the launch of the degree in 2013.

Students also have the option of pursuing the degree on a full-time or part-time basis; and after completing two years in Sri Lanka, they have the option of transferring to La Trobe or Deakin University in Australia.



Students who registered for the 12<sup>th</sup> intake of the BSc Applied Accounting degree.

## Scholarships awarded to top performing students



Kalani Rajapaksha of Rathnavali Balika Vidyalaya Gampaha being presented with a scholarship by CA Sri Lanka President Jagath Perera as Vice President Manil Jayasinghe and Secretary Prasanna Liyanage look on.



Thevindu Wijesekara of Royal College Colombo being presented with a scholarship by Jagath Perera with Manil Jayasinghe and Prasanna Liyanage looking on.

The institute awarded scholarships to two top students based on their General Certificate of Education (GCE) A-Level 2018 examination results.

Kalani Rajapaksha of Rathnavali Balika Vidyalaya Gampaha ranked first in Sri Lanka in the biological science stream while Thevindu Wijesekara of Royal College Colombo was placed third for his results in the physical science stream.

In a ceremony held at the institute, CA Sri Lanka President Jagath Perera awarded the two students with scholarships to help them embark on their careers as chartered accountants. Vice President Manil Jayasinghe and Secretary Prasanna Liyanage were also present at the ceremony.

The qualification has proved to be popular among both commerce and non-commerce students, thanks to its versatile and relevant curriculum, as well as the global recognition it enjoys.

## CA Sri Lanka students excel at case study exam



**Young achievers in the Institute of Chartered Accountants of Sri Lanka's (CA Sri Lanka) KC5 exam with CA Sri Lanka officials.**  
From left to right: Council Member Dulitha Perera, Vijayarathnam Shiyomi, Udesh Lakmal, President Jagath Perera, Vice President Manil Jayasinghe, Farhat Fayyaz, Ayesha Samarathunga, Ishark Rajan and Council Member Tishan Subasinghe.

A pass rate of 71.2 percent was recorded at the Institute of Chartered Accountants of Sri Lanka's (CA Sri Lanka) KC5 Corporate Strategy and Contemporary Issues case study exam conducted in December 2018.

Of the 131 students who passed the exam, several were aged 23 and 24, representing leading Colombo schools such as Ananda College, St. Paul's Girls' School, Milagiriya and St. Joseph's College.

CA Sri Lanka President Jagath Perera says that the high pass rate is a continuation of an observable trend: "This high

rate is also testimony to the fact that with commitment, students can always excel at the exams and go on to become chartered accountants."

One of the unique features that CA Sri Lanka offers students in its chartered accountancy programme is the option to pursue studies along with practical training as a fast track to the case study exam.

Perera notes that the programme combines studies, skills and training: "Together with practical training, the studies are our unique selling proposition to strengthen the professional qualification."

In his view, the perception that CA Sri Lanka's exams are difficult arises from the institute's focus on quality rather than quantity. However, he points to the results of the case study exam as evidence that commitment is needed to achieve success, adding: "You can't expect success without dedication."

CA Sri Lanka Vice President Manil Jayasinghe asserts that the practical training aspect of the institute's chartered accounting programme sets students apart from those who only obtain academic qualifications. "We can go to a university and get a degree but the training is the most distinctive feature for us as qualifications alone aren't sufficient," he remarks.

Furthermore, Jayasinghe states that professional qualifications are more advanced than an academic qualification due to their focus on two vital aspects – viz. ensuring that students are competent and have the necessary skills to carry out their roles at work.

He elaborates: "When an accounting professional follows a professional qualification, he or she not only gains the knowledge but also understands how to use the knowledge to solve problems."

## Residential programme to strengthen soft skills



Chartered accounting students engaged in an outdoor activity during the residential programme.

In a bid to ensure that future chartered accountants possess the necessary soft skills to serve as corporate leaders, CA Sri Lanka recently conducted a three day residential programme for its corporate level students.

Consisting of classroom sessions and knowledge enhancing exercises, a range of knowledge sharing, exciting and fun filled activities were also conducted.

Held at the Sanctuary House in Pamunugama, five resource personnel from a variety of fields discussed a range of topics including communication and negotiation skills, developing core competencies, marketing and business plans, mastering

business strategies and delivering winning presentations.

The programme was conducted for students who passed the KC5 case study exam in December 2018 and corporate level students undertaking the KC1, KC2, KC3 and KC4 exams.



CA Sri Lanka corporate level students at a model classroom session.



# Musaeus College wins third Business Plan Competition



Former cricketer and Deputy Chairman of the Ideal Group of Companies Aravinda de Silva delivering his speech.



Panel of judges at the grand finale (from left to right): Triad Joint Managing Director Varuni Amunugama Fernando, QUT Business School Associate Dean (International) Andrew Paltridge, University of Sri Jayewardenepura Senior Lecturer Dr. Roshan Ajward, Maliban Biscuit Manufactories Group CEO Ravi Jayawardena, and Sri Lanka and Australia Chamber of Commerce President Kalum De Silva.

Musaeus College emerged as the winner of the CA Sri Lanka Business Plan Competition 2019, having competed against five other leading schools in the grand finale. Organised by CA Sri Lanka, the competition is considered to be an important platform that nurtures entrepreneurial skills among students.

Musaeus College pitched an innovative and eco-friendly business plan in developing an edible cup, winning a cash prize of Rs. 250,000, as well as an opportunity to compete in the BlueShift Competition organised by the QUT Business School in Brisbane in Australia.

QUT Business School served as the strategic partner of the CA Sri Lanka Business Plan Competition 2019 for the third consecutive year, which was conducted in association with the Sri Lanka and Australia Chamber of Commerce.

The five schools that competed at the grand finale were Devi Balika Vidyalaya, which was adjudged first runner-up and awarded a cash prize of 150,000 rupees; second runner-up Bandaranayake College Gampaha, which won a cash prize of Rs. 100,000; and St. Bridget's Convent, Rathnavali Balika Vidyalaya and Bandarawela Central College.

Former Sri Lanka cricketer and Deputy Chairman of the Ideal Group of Companies Aravinda de Silva was the chief guest at the event and stated: "You must understand that sometimes every business plan is not going to be a winning plan but with passion, you can sometimes make it a winning plan."

In addition, he maintained that students should not be afraid of making mistakes, noting that "it is important to remember that you must never repeat the same mistake."

CA Sri Lanka President Jagath Perera explained that the primary objective of the competition is to strengthen students' soft skills and help them glean a better understanding of business matters, aiding them in their professional careers.

Chairman of the CA Sri Lanka Media and Communication Committee Laknath Peiris noted that the country needs successful entrepreneurs to create wealth and generate employment.

He added that "as the national accounting

body, we have taken the necessary steps to develop and harness the entrepreneurial skills among our future business leaders."

Overall, about 30 school teams competed in the regional rounds, which were held in Colombo, Kandy, Gampaha, Ratnapura, Kurunegala, Bandarawela and Jaffna in February and March. Teams were selected to progress to the grand finale based on the highest aggregate marks received in these rounds.



Champion of the CA Sri Lanka Business Plan Competition 2019 Musaeus College flanked by first runner-up Devi Balika Vidyalaya and second runner-up Bandaranayake College Gampaha.



A section of the students and teachers at the CA Sri Lanka Business Plan Competition 2019 grand finale.



### CA Sri Lanka holds annual budget seminar



The panel discussion on the economic analysis of the budget featuring Dr. Nishan de Mel, Jagath Perera, Deshal De Mel, D. Soosaipillai, Mangala Yapa, and Dr. Rohan Fernando with moderator Shamindra Kulamannage.



The panel discussion on the tax perspectives of the budget featuring Shamila Jayasekara, D. R. S. Hapuarachchi, Hiranthi Rathnayake, K. A. Vimalenthirarajah, N. R. Gajendran and Sulaiman Nishtar with moderator V. Sivagurunathan.

The annual Institute of Chartered Accountants of Sri Lanka Budget Seminar was held in March at the Hilton Colombo, following the announcement of the 2019 budget proposals. Featuring a host of speakers and panellists representing the private and public sectors, the seminar looked to evaluate the economic and tax perspectives of the national budget.

The event was attended by industry specialists and other professionals including chartered accountants with CA Sri Lanka President Jagath Perera delivering the welcome speech.

Verité Research Executive Director Dr. Nishan de Mel initiated the first session with an economic analysis of the 2019 Budget.

This was followed by a panel discussion moderated by Echelon Magazine Editor-in-Chief Shamindra Kulamannage, featuring subject specialists including Perera, Ministry of Finance Economic Advisor Deshal de Mel, Hatton National Bank Director D. Soosaipillai, Ministry of Development Strategies and International Trade Technical Advisor and Board of Investment of Sri Lanka (BOI) Chairman Mangala Yapa, and Aitken Spence Director and Head of Business Development and Plantations Dr. Rohan Fernando.

Focussing on the tax perspectives of the budget, the second session of the seminar began with a presentation delivered by KPMG Partner Shamila Jayasekara.

This was followed by a second panel discussion moderated by Consultants' Consortium Partner V. Sivagurunathan. The panellists included Inland Revenue

Department (IRD) Senior Commissioner D. R. S. Hapuarachchi, CA Sri Lanka Taxation Committee Chairperson Hiranthi Rathnayake, Department of Fiscal Policy

Director General K. A. Vimalenthirarajah, Gajma & Co. Founder and Partner N. R. Gajendran, and EY Sri Lanka Partner Sulaiman Nishtar.

### Third Best Annual Report and Account Awards to be conducted

The Association of Public Finance Accountants of Sri Lanka (APFASL) – the public sector wing of the Institute of Chartered Accountants of Sri Lanka – is set to host the third Best Annual Report and Accounts Awards in collaboration with the Ministry of Finance and Auditor General's Department.

Geared towards public sector organisations, the institutions will be classified under nine categories including ministries, departments, provincial councils, universities, municipal and urban councils, Pradeshiya Sabhas, foreign funded projects, and noncommercial statutory boards and funds.

The initiative aims to help improve the quality of annual reports and accounts issued by these organisations, as well as enhance transparency, accountability and good governance practices within the sector.

Organisations participating in this year's ceremony were to submit their annual reports for the year ended 31 December 2017 along with the audit and performance reports, and accounts.

The best annual reports and accounts will be selected following a strict evaluation process. One winner and two runners-up will be selected from each category, as well as an overall winner.

Financial statements and reports will be evaluated according to compliance with standards, regulations and best practices with all reports being scrutinised in an initial selection process by a technical committee. A panel of judges will make a final selection.

Nonmandatory requirements include governance statements; management discussions and analyses; governance subcommittees' reports; organisation structures or control mechanisms and strategic initiatives for good governance; and overall presentation of accounts and reports.

Meanwhile, mandatory requirements include accounting policies and compliance with standards, regulations and statutory requirements; general disclosures and adequate information to interested parties; financial statement and notes; and assets and liabilities statements.

## Linking integrated thinking with integrated reporting



**Panellists (from left to right):** Forestpin Director Dilanke Hettiaratchi, SheConsults Director Aruni Rajakarier, University of Colombo Senior Lecturer in Accounting Dr. A. A. C. Abeyasinghe, Integrated Reporting Council of Sri Lanka Chairman Asite Talwatte, Smart Media Chief Officer Process Development Raja Senanayake, University of Sri Jaywardenepura Department of Accounting Professor Samantha Senaratne, KPMG Sri Lanka Partner Ranjani Joseph, and EY Sri Lanka Financial Accounting Advisory Services Senior Manager Hathim Sabry.

As integrated reporting continues to gain recognition among Sri Lankan corporates, CA Sri Lanka and the Integrated Reporting Council of Sri Lanka (IRCSL) are highlighting the need for businesses to embrace and implement 'integrated thinking' with this framework. To this end, CA Sri Lanka and IRCSL organised a workshop earlier this year entitled 'Integrated Reporting: Moving Beyond the Basics.'

IRCSL Chairman Asite Talwatte revealed that the adoption of integrated reporting has steadily increased over the years with almost 50 organisations adopting the framework in 2018 compared to about 20 companies in 2014.

However, Talwatte asked if companies were also embracing integrated thinking in terms of management and board level

discussions as he believes this is vital to organisations enjoying long-term sustainability.

Through the integrating reporting framework, companies are compelled to understand the need for long-term value creation encompassing financial statements, management commentaries, governance reports, environmental and social impacts, and corporate communications.

According to Raja Senanayake, Chief Officer of Process Development at Smart Media, integrated reporting communicates the story of a corporate creating value for all stakeholders in the short, medium and long terms. This includes initiatives undertaken to deliver value to customers, employees, investors, business partners, regulators, society and the environment,

as well as programmes that will be implemented in the future.

Driving this framework also requires changing mindsets and skill sets to embed integrated thinking as highlighted by SheConsults Director Aruni Rajakarier. She noted that an issue in annual reports is the overload of information and urged companies to avoid reporting on anything outside their jurisdictions.

The workshop also covered the use of technology as an enabler in terms of helping facilitate integrated thinking among corporates. EY Sri Lanka Financial Accounting Advisory Services Senior Manager Hathim Sabry stressed the need for CFOs to ensure that processes and models are captured properly and pointed out that technology will play a critical role in the context of modern business and integrated thinking.



Integrated Reporting Council of Sri Lanka Chairman Asite Talwatte delivering the welcome speech.

## Sustainable public sector finance discussed at conference



National Economic Council Deputy Secretary General C. J. P. Siriwardana delivering the keynote speech.

The inaugural CPFA and APFASL Annual Conference was held in February, attracting experts who discussed sustainable public sector financial management, and the need for forward thinking while upholding trust and accountability in the public sector.

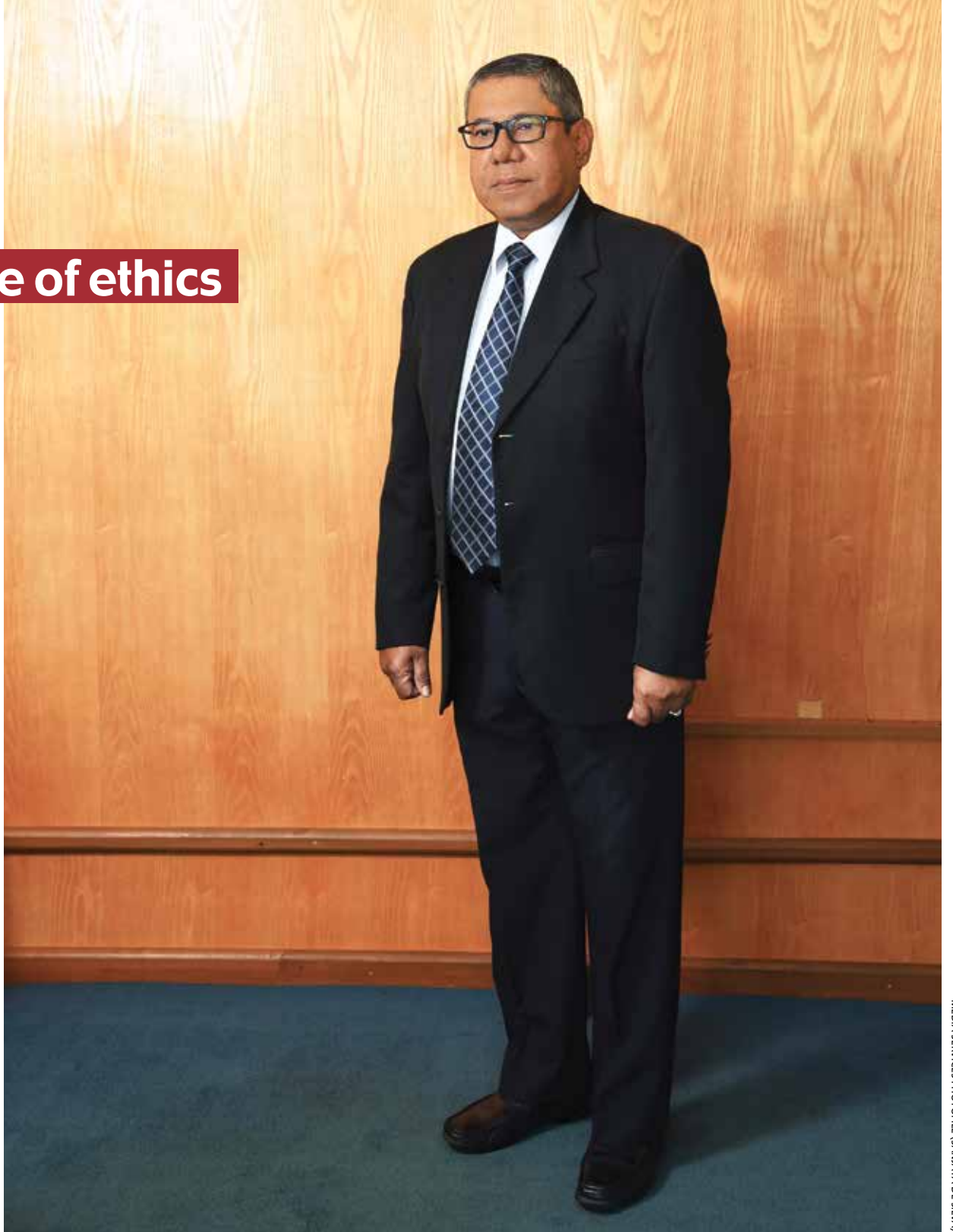
Organised by CA Sri Lanka's public sector wing Association of Public Finance Accountants of Sri Lanka (APFASL), the conference focussed on ensuring that the public sector is sustainable and was attended by public sector officials. The welcome speech was delivered by APFASL President V. Kanagasabapathy while the keynote speech was delivered by National Economic Council Deputy Secretary General of Economic Affairs C. J. P. Siriwardana.

Several speakers including Auditor General Gamini Wijesinghe (who discussed the enhancement of accountability through the National Audit Act) as well as Department of External Resources Director Visakha Amarasekara (who discussed the budget deficit trends and financing implications) discussed a range of topics at the conference.

Meanwhile, former Senior Commissioner of the Inland Revenue Department (IRD) Dharmadasa Ranagala explored tax reforms geared towards sustainable development.

CA Sri Lanka President Jagath Perera and Ministry of Home Affairs Chief Financial Officer Dr. Tharaka Liyanapathirana also spoke at the event.

**Code of ethics**



MEDIA SERVICES PHOTOFILE (SANJAYA DE SILVA)

# Future Ready Road Map

**Reyaz Mihular** discusses  
the importance of ethics  
for accountants



**Q: What is the importance of applying global regulations such as a standard code of ethics in the local context?**

**A:** The importance of global codes whether they be auditing, accounting or ethical standards is based on the fact that the world has become a global village.

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## **If we are to drive Sri Lanka's growth as a country and an economy, foreign direct investment is an absolute necessity**

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If we are to drive Sri Lanka's growth as a country and an economy, foreign direct investment is an absolute necessity as we don't have adequate capital to reach the next level.

And when foreign investors assess the country, they consider the codes and standards that we follow. Ethical standards have become an increasingly important aspect of investment

as proper standards ensure that people comply with the spirit in which they are formulated.

In essence, the importance of applying global standards is the need to give foreign investors confidence that we are applying codes that they're familiar with across the globe. As a small market, Sri Lanka must enforce these rather than local standards so that people don't have to worry about differences before considering the business aspects of investing here.

**Q: And what are the salient changes in the 2018 edition of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants including International Independence Standards?**

**A:** Some changes have been made to clarify concepts and procedures, and provide guidelines.

For instance, the revision clarifies the link between professional scepticism and the code's fundamental principles, which are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Furthermore, it provides guidance on actions to be taken in the event that professional accountants are pressured to compromise their integrity. There is also guidance regarding the receipt of gifts and hospitality to ensure that objectivity isn't impacted in these instances.

The code also provides a road map for how auditors and



INGIMAGE®



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accountants should respond to clients' noncompliance with laws and regulations (NOCLAR).

So rather than adding new requirements for accounting professionals, this revision clarifies the conceptual framework.

**Q: What are the challenges faced by professional accountants when it comes to the use of professional judgement and scepticism? And how does the new ethics code assist this process?**

**A:** In the case of professional accountants, exercising judgement means utilising their knowledge and experience to decide what they can or cannot do.

By clarifying how threats and safeguards should be assessed, and stating that there are cases in which assignments should not be accepted as no amount of safeguards would be sufficient, the revised code of ethics helps accountants exercise professional judgement and scepticism better.

**Q: In your opinion, which areas of the code could be developed in the future?**

**A:** The code is a living document that deals with people. Cultures change, globalisation impacts how business is conducted and business practices continuously evolve.

IT is a significant driver of change in terms of privacy and confidentiality. For instance, with information being stored on the cloud, this raises questions about traditional notions of confidentiality and what is considered to be a conflict of interest.

The code has to change to address the idea that

technology is changing how people work. While audited documents were previously recorded with checklists and signatures, there is no paper trail when the process is conducted electronically. The code cannot be embedded in old scenarios and must incorporate changes that take into account data privacy and access, and what may have been considered natural safeguards may not be applicable anymore.

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## **With stakeholder insights, the code will be updated to address the challenges introduced by technology**

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To address this, the IESBA Technology Working Group is working to identify how technology will impact business processes and the Code of Ethics. And with stakeholder insights, the code will be updated to address the challenges introduced by technology.

*The interviewee is the Chairman of the Professional Conduct (Ethics) Committee and Chairman of KPMG's Middle East & South Asia (MESA) Regional Cluster. He was interviewed by Lourdes Abeyaratne.*



# Economic radar

MEDIA SERVICES RESEARCH (THE HERITAGE FOUNDATION)

## 2019 INDEX OF ECONOMIC FREEDOM SOUTH ASIA

COUNTRY	RANK
BHUTAN	74
<b>SRI LANKA</b>	<b>115</b>
BANGLADESH	121
INDIA	129
PAKISTAN	131

## Economic freedom declines

Sri Lanka is ranked 115<sup>th</sup> out of 180 economies in the Heritage Foundation's 2019 Index of Economic Freedom. The index measures economic freedom across four pillars – viz. the rule of law, government size, regulatory efficiency and open markets. Since last year, Sri Lanka's overall score

declined by 1.4 points to 56.4, which is below the regional and world averages. Categorising the country as 'mostly unfree,' the Heritage Foundation cites political and economic uncertainties as issues for investors to watch out for. While government spending and the tax burden are considered to be relative strengths,

the nation's external debt, and current and fiscal account deficits are highlighted as being signs of weak macroeconomic fundamentals. Furthermore, better management of public finances and additional structural reforms are needed to improve the business climate, it states.

## Focus on demographic changes

INGIMAGE®



Sri Lanka's ageing population is expected to impact macroeconomic performance, according to a World Bank report. The international funding institution notes that "compared to [Sri Lanka's] peers, it has reached an advanced stage of this demographic transition."

As a result, the country's working age is expected to gradually decline. In addition, Sri Lanka's economic growth is also expected to deteriorate because of changes in demographics such as the number of children, age of childbearing and fertility rates, as well as female labour participation and educational attainment. Increasing the female labour force participation rate could address the expected reduction in the workforce – and this could be achieved through policies that foster women's entry into the labour market. Increasing levels of educational attainment and the period of education, in addition to reallocating labour towards more productive sectors, could also improve productivity and growth.

## Fitch projects lower growth

Sri Lanka's economic growth for 2019 will be lower than expected as a result of the Easter Sunday bombings, according to Fitch Ratings. Moreover, the rating agency says that external financing pressures could increase. Fitch states: "These pressures are mitigated by the government's continued adherence to economic policies and targets that have enabled Sri Lanka to get its IMF programme back on track." As a result of the dramatic decline in tourist arrivals and spending, the nation's GDP growth could be one to 1.5 percent lower than the agency's forecast of 3.6 percent. The current account deficit is also expected to be negatively impacted, widening to between 2.7 and 2.8 percent as opposed to previous estimate of 2.3 percent. Fitch Ratings also notes that "political tensions could resurface towards the end of 2019 when presidential elections are due."

MEDIA SERVICES PHOTOFILE (ANUSH WUESINHA)



## IMF completes fifth review

INGIMAGE®



The IMF completed the fifth review of Sri Lanka's performance under its Extended Fund Facility arrangement in May, approving a disbursement of US\$ 164.1 million and bringing the total value of disbursements to almost 1.2 billion dollars. In addition, the board approved the extension of the arrangement until June 2020. IMF Deputy Managing Director and Acting Chair of the Executive Board Mitsuhiro Furusawa notes that "the Sri Lankan authorities have successfully brought the programme back on track despite important setbacks." This was achieved by advancing fiscal consolidation through Budget 2019, rebuilding reserves, maintaining a prudent monetary policy under greater exchange rate flexibility and structural reforms. He adds: "Continued implementation of structural reforms is essential to support strong and inclusive growth. Efforts should focus on liberalising trade, improving the business environment and promoting investment, strengthening governance, encouraging female and youth labour force participation, enhancing social protection and improving crisis preparedness to natural disasters."



# Economic radar

## Modest growth projection

Sri Lanka's economic activity is projected to accelerate to 3.5 percent in 2019 and average 3.6 percent over the next two years. The World Bank expects this acceleration to be supported by "a pickup in services sector activity and solid infrastructure investment." However, an increase in political uncertainty in the lead up to the presidential and parliamentary elections that are to be held this

REAL GDP GROWTH FORECAST SRI LANKA	
YEAR	%
2019	3.5
2020	3.6
2021	3.7

MEDIA SERVICES RESEARCH (WORLD BANK)

year and the next respectively may also undermine business

confidence, while the recent terror attacks and mob violence may "dampen investor sentiment and perceptions." The World Bank also points out that Sri Lanka's high foreign debt and low international reserves could limit its ability to address external shocks. Furthermore, global economic uncertainty arising from Brexit may also pose a risk to the country's exports, the World Bank notes.

## Rising debt a challenge

Sri Lanka is listed among countries with rising interest burdens, in the IMF's latest Fiscal Monitor report. As a result of its interest burden exceeding 20 percent of total revenue last year, the country may also be vulnerable to rollover risks in the event that it faces large financing requirements. With an estimated maturing debt of 13.5 percent of GDP and a budget deficit of 4.6 percent in 2019, Sri Lanka's total financing requirement is estimated at 18.1 percent of GDP. However, its maturing debt and budget deficit are projected to decrease to 12 percent and 3.5 percent respectively in 2020. The IMF recommends sustained efforts to mobilise revenues to provide the necessary investments in human and physical capital in emerging countries, including increasing tax revenues by removing exemptions and improving administrative efficiency.



## State enterprise losses



Financial information is available for only 55 of Sri Lanka's 527 state owned enterprises (SOEs), according to 'The State of State Enterprises in Sri Lanka 2019' report. Advocata Institute says that from 2006 to 2017, the cumulative

profits and losses of these 55 entities amounted to Rs. 964 billion and 795 billion rupees respectively. Structural problems include corruption and weak governance, which in turn lead to higher political and agency costs. In its flagship report, Advocata Institute notes that this situation can be addressed through recommendations such as compiling a comprehensive list of all SOEs and setting up basic reporting procedures to establish centralised control. To improve governance, the report recommends strengthening the Committee on Public Enterprises (COPE) and Committee on Public Accounts (COPA), and implementing OECD guidelines on corporate governance.

## Rule of law deteriorates

Sri Lanka is ranked 63<sup>rd</sup> of 126 countries and jurisdictions in the World Justice Project's Rule of Law Index 2019, marking a decline of one place since the preceding year. Furthermore, this places it at No. 6 among lower middle income countries and second in the South Asian region. The index measures countries across eight indicators on the rule of law based on the experiences and perceptions of the general public and experts worldwide. With a score of 0.5, Sri Lanka is ranked No. 1 in South Asia in three factors - the absence of corruption, and civil and criminal justice. However, these are factors in which the country's scores are the poorest

WJP RULE OF LAW INDEX 2019 SOUTH ASIA	
COUNTRY	RANK
NEPAL	59
<b>SRI LANKA</b>	<b>63</b>
INDIA	68
BANGLADESH	112
PAKISTAN	117

in the region. Meanwhile, in terms of lower middle income countries, Sri Lanka's highest rankings are in the categories of absence of corruption, criminal justice and fundamental rights.

## Global growth downgraded

The World Bank's global economic growth projection for 2019 has been downgraded to 2.6 percent to reflect "the broad based weakness observed during the first half of the year including a further deceleration in investment amid rising trade tensions." This revision is a 0.3 percent decrease from previous projections while world trade growth for the year has been downgraded by one percentage point to 2.6 percent, which World Bank notes is the weakest since the global financial crisis. While growth in emerging market and developing economies is projected to decline to a four year low of four percent this year,

REAL GDP GROWTH FORECAST THE WORLD	
YEAR	%
2019	2.6
2020	2.7
2021	2.8

it is expected to increase to 4.6 percent in 2020 and 2021 from four percent in 2019, the World Bank asserts in a recent statement on the health of the world economy.

## Unemployment on the rise

MEDIA SERVICES RESEARCH (DCS)

### LABOUR FORCE PARTICIPATION SRI LANKA

YEAR	%
2014	53.2
2015	<b>53.8</b>
2016	53.8
2017	54.1
2018	51.8

Sri Lanka's labour force participation rate declined by 2.3 percent year on year to 51.8 percent last year, according to the Department of Census and Statistics (DCS). Of the country's three major industry groups, services accounts for 46.6 percent of the employed population, followed by industry (27.9%) and agriculture (25.5%). Meanwhile, males comprised 65.1 percent of the economically active population compared to females who accounted for nearly 35 percent. DCS notes that the unemployment rate here in Sri Lanka also increased to 4.4 percent last year from 4.2 percent in 2017 while the inactive population grew by over half a million people – this was largely reported among females, young people between the ages of 15 and 24, and those aged 60 and above, the department adds.

## Grant to reduce poverty

The Millennium Challenge Corporation approved a five year grant of US\$ 480 million for Sri Lanka in an effort to reduce poverty through economic growth. According to the aid agency, the grant will address two of the nation's constraints to economic growth – viz. transport logistics infrastructure and planning; and lack of access to land for agriculture, services and industrial investors. The transport project focusses on improving the relative efficiency and capacity of the road network and bus system in the Colombo metropolitan area, as well as reducing transportation costs from Sri Lanka's central region to the ports and markets. Meanwhile, the aim of the land project is increasing



MEDIA SERVICES GRAPHICS (CHARINI KANANKE)

the availability of information on private and underutilised state land to "increase land market activity." This is expected to "increase tenure security and tradability of land for smallholders, women and firms, through policy and legal reforms."

## Policy rates reduced



MEDIA SERVICES PHOTOFILE (SAINAVYA DE SILVA)

The Monetary Board of the Central Bank of Sri Lanka recently reduced the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) to 7.5 percent and 8.5 percent respectively on the back of the global economic slowdown. Moreover, the board says this decision was made "with the broad aim of stabilising inflation at mid-single digit levels in the medium term to enable the economy to reach its potential." Following the

modest growth observed last year, it notes that the economy is likely to have grown at a faster pace in the first quarter of 2019 but "the Easter Sunday attacks have affected confidence and [the] sentiment of economic agents, particularly disrupting tourism and related activities." As a result, growth is projected to be lower than anticipated this year despite expectations that economic activity will gradually return to normal.

## Sustainability road map

The Central Bank of Sri Lanka (CBSL) recently launched the 'Roadmap for Sustainable Finance in Sri Lanka' in a bid to develop sustainable finance in the country. Through this document, CBSL looks to provide guidance and support to financial institutions in effectively managing the environmental, social and governance (ESG) risks associated with projects they finance, as well as to support businesses that are greener, climate friendly and socially

inclusive. The objectives include introducing policy cohesion across ministries, the Central Bank, other financial regulators and finance sector participants to address specific ESG issues. And the priorities to achieve sustainable economic development include identifying eight sectors in need of investment, ESG integration in the financial market, financial inclusion, capacity building, international cooperation, and tracking sustainable flows and monitoring the effectiveness of implemented measures.



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## Cover story



MEDIA SERVICES PHOTOFILE (SANJAYA DE SILVA/ESHAN SILVA)



# Recapturing

## Sri Lanka's Economic Potential

**Professor  
Lalith Samarakoon**  
emphasises the need  
to drive growth to  
address the economic  
challenges facing  
Sri Lanka

**P**rofessor Lalith Samarakoon was appointed Secretary-General & Chief Economist of the National Economic Council of Sri Lanka (NEC) – the apex body for economic policy in Sri Lanka – in 2017. The council is among the foremost authorities on the nation's economy.

Samarakoon is Sri Lanka's first professor of finance, a Fellow of the Institute of Chartered Accountants (CA Sri Lanka) and a certified financial analyst.

As an international financial economist, he counts nearly three decades of high-level advisory experience with the World Bank, United States Agency for International Development (USAID), Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), Central Bank of Sri Lanka, Ministry of Finance, and Securities and Exchange Commission of Sri Lanka (SEC).

In addition, he possesses private sector experience in the banking, stockbroking and fund management sectors.

In this exclusive interview, Samarakoon stresses the need to focus on driving growth to address fundamental economic issues facing the country. He also shares insights on a wide range of matters including the global economic outlook and developments, economic and financial policies and strategies, the national budget, the impact of the Easter Sunday terrorist attacks and the need for a national economic plan.

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**We must be competitive  
to improve our economic  
growth beyond four  
percent and double it  
over the next decade  
on a sustained basis**

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**Q: Could you provide an overview of the global economic environment in which Sri Lanka is operating?**

**A:** The global economic picture is quite important for a country such as Sri Lanka, which relies on it for exports as well as investment.

Currently, the global picture projects a slowdown and monetary easing. According to the World Bank, advanced economies are expected to grow at a rate of 1.7 percent in 2019 compared to 2.1 percent last year. In contrast, emerging markets are projected to grow at around four percent compared to the 4.3 percent recorded in 2018.

This economic slowdown is likely to be a major factor impacting Sri Lanka – it has the potential to affect our export growth as well as foreign investment.

**Q: What would the positive and negative impacts of developments on the world stage – such as the US–China trade war and Brexit – be on Sri Lanka’s economic recovery?**

**A:** The US has been working to address its large trade imbalances with the rest of the world, creating tension with China, the EU and India.

From the United States’ perspective, this is a significant structural problem that needs to be addressed by increasing production to reduce its reliance on imports and growing exports through increased access to key markets.

These trade tensions will have an obvious impact

on world trade and investment, which means that Sri Lanka’s exports will face challenges – possibly with negative impacts on the trade and current account balances.

As for Brexit, the concern centres on how British trade with the EU would be impacted as well as what’s in store for investment relationships. If the divorce from the European Union comes to fruition, the UK would look to enter into bilateral and multilateral agreements, which would present opportunities for Sri Lanka.

However, it’s premature to measure the impact of this until there is more clarity on the final resolution of Britain’s trade and investment relations with the EU.

Apart from these developments, it’s important that Sri Lanka adopts a proactive approach, and evaluates the impacts and options available to us.

**Q: Sri Lanka’s economic growth has declined in recent years with a recorded increase of 3.2 percent last year. What is your take on this?**

**A:** On a positive note, the Sri Lankan economy has continued to grow despite global and domestic challenges. However, it’s very clear that the nation’s recent growth record has been disappointing.

During the five years from 2014 to 2018, economic growth averaged 4.2 percent, gradually declining from five percent in 2014 and 2015, and 6.5 percent from 2009 to 2013.

Sri Lanka was considered to be a lower middle

**DEBT TO GDP RATIOS SOUTH ASIA (2018)**

The debt to GDP ratio measures a country’s public debt against its gross domestic product. A study by the World Bank found that if the debt to GDP ratio of a country exceeds 77 percent for an extended period, economic growth will slow down. Every percentage point of debt above this level costs a country 1.7 percent in terms of economic growth.





PEXELS

income economy until its upgrade to an upper middle income economy on 1 July. However, other lower middle income economies have experienced higher rates of growth. For instance, between 2013 and 2017, Vietnam grew by 6.2 percent and Bangladesh by 6.6 percent, while India's growth exceeded seven percent. Meanwhile in East Asia, Cambodia's economy accelerated by 7.1 percent and Laos by 7.4 percent.

It's important to track these countries' performance because we compete with them in the global marketplace for exports. While it can be difficult to compare one country with another as each would be at different stages of development – with differences in costs, competitiveness, labour markets and institutional structures among other aspects – these nations serve as benchmarks for Sri Lanka. Higher economic growth is possible but we have been unable to steer the country to a similarly high growth path.

Sri Lanka needs to achieve growth rates in the high single digits – i.e. seven percent and above – and we must look at what our competitors are doing, in terms of export and foreign direct investment (FDI) strategies and incentives; agricultural, industrial and services development; economic decision-making processes; institutional structures and so on.

Another implication of low economic growth is that the government will not be able to increase state revenue substantially; and as a result, it will have limited fiscal space to increase capital expenditure in areas such as infrastructure and provide fiscal incentives to promote growth.

**Q: The manufacturing industry is the second largest contributor to the national economy with the largest exporters being apparel manufacturers – they raked in over US\$ 5 billion last year. However, apparel manufacturers are increasingly setting up operations overseas. Are policies and strategies being implemented to encourage our exporters?**

**A:** In my opinion, we need to greatly improve our export development strategies, which calls for many changes.

Improving the investment environment in Sri Lanka – and our competitiveness in terms of infrastructure, cost, quality, innovation, technology, skills and so on – is critical. Modernising agriculture, diversifying industrialisation, promoting investment in value added exports, transforming and developing knowledge and technology based service industries, and diversifying export markets among others are important initiatives to create growth.

We must be competitive to improve our economic growth beyond four percent and double it over the next decade on a sustained basis. Without this, it will be extremely challenging for Sri Lanka to overcome the economic challenges it faces.

**Q: Budget 2019 included incentives for the IT industry and investments in large-scale projects, an increase in funding for**



**SMEs and provide more higher education opportunities, as well as higher duties on the motor industry among other sectors. In your opinion, is it necessary to reallocate resources?**

**A:** Certainly, yes. A lot of funds could be reallocated in terms of government expenditure to reduce wasteful spending as a fair amount could be considered unproductive.

Government expenditure on events and ceremonies must be capped to an absolute minimum. Through government institutional reforms, we must eliminate all duplicate and unnecessary departments, ministries, corporations, authorities and similar institutions. The Cabinet of Sri Lanka must be restricted to about 25 to 30 ministers. Furthermore, expenditure rationalisation must be a top priority.

In my view, expenditure should be directed towards infrastructure development and increasing the productive capacity of the economy. However, government revenue is unlikely to be sufficient to support this. This is where FDI as well as domestic investments need to come in large sums.

Local companies that have the requisite capacity and funds should be encouraged to participate in development activities. This would pass the risk from government to the private sector. But such a shift should take place within a well-managed framework. Sri Lankan companies and entrepreneurs must be given priority in development and commercial projects. Meanwhile, SMEs should be supported on the basis that they generate jobs and exports.

A skilled human resource base is pivotal to driving growth. University education must be expanded to provide higher education opportunities to a larger number of students who pass A-Level examinations. And Sri Lankan universities must be mandated to seek international accreditation to improve the quality of our education.

Furthermore, premier professional bodies such as CA Sri Lanka have a greater role to play in producing knowledgeable and skilful graduates on a par with international standards.

**Q: The Ministry of Finance and Mass Media estimates that the country's debt to GDP ratio exceeded 80 percent at the end of last year. What would you consider to be a healthy debt to GDP ratio for a nation such as Sri Lanka?**

**A:** When a country's economy doesn't grow, other vulnerabilities such as debt and deficits deepen. A good rule of thumb for developed countries is maintaining a debt to GDP ratio of 60 percent – this was the maximum ratio agreed for the Eurozone.

Since debt grows with deficits, the budget deficit



INGIMAGE

should also be contained and as a matter of practice, it shouldn't exceed three percent.

What should be taken into consideration is the ability to service debt – particularly foreign debt. In the case of Sri Lanka, we estimate that the outstanding foreign debt amounted to Rs. 6 trillion or about US\$ 34 billion in March this year. Debt repayments are expected to be in the order of five to six billion dollars annually.

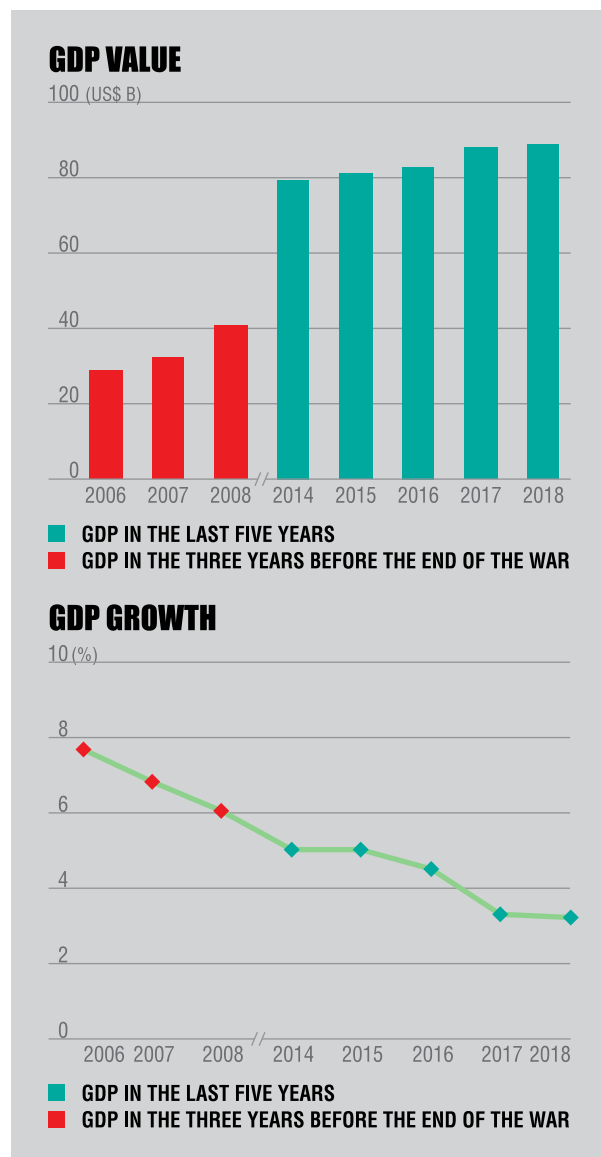
As our debt servicing capacity is rather low, we have to keep rolling over existing debt. Sri Lanka's current debt to GDP ratio is unsustainable in the long run so we need substantially higher economic growth to help us come out of the debt trap that we find ourselves in.

This can be achieved through carefully planned investments and export led development strategies. But it requires a long-term vision with clear national socioeconomic goals and significant political, economic and structural reforms, which is a serious undertaking.

**Q: Debt isn't necessarily an issue one feels; because after all, any country would need some level of debt to implement**



**Sri Lankan companies and entrepreneurs must be given priority in development and commercial projects. Meanwhile, SMEs should be supported on the basis that they generate jobs and exports**



MEDIA SERVICES RESEARCH (CENTRAL BANK OF SRI LANKA)/INFOGRAPHICS BY THUSTHA JAYAWARDHANA

**development projects. But a strong debt repayment mechanism is needed. Do you think that Sri Lanka currently has the right policy to facilitate its debt repayment schedule? If not, what is the way forward?**

**A:** Currently, it seems the strategy is to borrow as a means to settle our debts.

Refinancing our debt is not a sustainable strategy. Instead, we should ensure that the borrowed funds are invested in productive investments to generate cash flows and revenue. For instance, we should link infrastructure development to economic activities.

Keeping this in mind, a practice found in other countries is the issuance of bonds to finance infrastructure development. We don't have a system like this in place but should consider an infrastructure financing mechanism as well as a repayment mechanism.

In the case of constructing a central expressway for example, the tolls paid by users would not be adequate to cover the interest and principal payments on an annual basis – and the payback period would

be quite long. So we should couple infrastructure development with economic zones. At the same time, economic activities that are to be facilitated through infrastructure should be planned simultaneously so that government earnings aren't directly from people using the infrastructure. Rather, economic activities would generate production and exports, thereby increasing the GDP – and this would generate gainful employment and increase revenue for the government.

**Q: Media reports have estimated that the financial impact of the Easter Sunday terrorist attacks amounts to some US\$ 1.5 billion. Could you tell us how such a figure can be quantified?**

**A:** The financial impact of the Easter Sunday attacks is likely to be larger than people expect when you consider the wider implications beyond tourism. We effectively lost three to four weeks of economic activity, which is quite significant.

In that respect, my estimation from a GDP perspective is that the cost may amount to about 0.5 percent of GDP – that's almost US\$ 500 million. However, this is a conservative estimate and it could be as high as one percent if not more as estimated by some analysts.

But beyond this, people have also lost jobs and incomes as we witnessed in the tourism industry, as well as businesses across different sectors of the economy. In turn, this will affect government revenue and impact the budget forecast for 2019 with a possible worsening of the budget deficit.

**Q: What are the necessary prerequisites to rebuilding confidence in Sri Lanka as an investment destination?**

**A:** In the last few years, Sri Lanka's FDI has displayed

an upward trend, growing to US\$ 1.4 billion and 1.6 billion dollars in 2017 and 2018 respectively. However, this amounts to less than two percent of the nation's GDP.

In contrast, Cambodia attracted nearly US\$ 3 billion (12.6% of GDP) and Vietnam received over 14 billion dollars (6.3% of GDP) in FDIs in 2017. Therefore, our foreign investments are quite small in both absolute and relative terms.

Two key factors have been inhibiting growth and foreign direct investments.

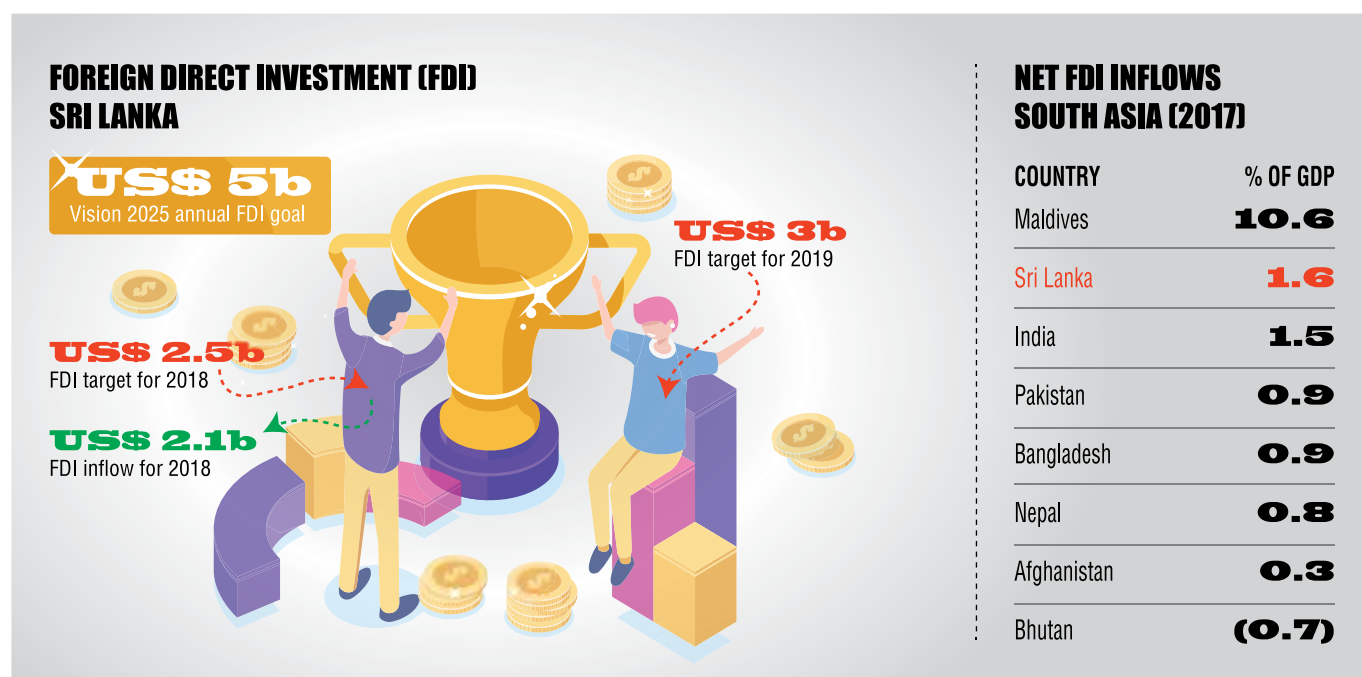
The first is policy uncertainty encompassing socioeconomic policies in key sectors. We lack a well-established and coordinated economic plan and a set of policies across economically important sectors. Therefore, the first priority should be to draft a national economic plan involving a five year planning process as countries such as India and China have done.

To this end, the NEC is already developing a national economic plan for 2020-2025.

The second and perhaps more important factor is political uncertainty and unpredictability. As a country that has celebrated 71 years of independence, we're still trying to answer basic questions relating to the presidency, and the electoral and provincial governance system.

Furthermore, we've built a rather luxurious and disproportionately large governance system. We need less government, not more. As such, we need to systematically reduce the size of government and its role in commercial activities, release funds for development and create conditions for private sector led growth. The government should be a facilitator and an effective regulator.

Investors assess policy direction based on changes in government and the prevailing country situation – therefore, we need predictable election cycles and



MEDIA SERVICES RESEARCH (BOARD OF INVESTMENT OF SRI LANKA/WORLD BANK)/INFOGRAPHICS BY THUSITHA JAYAWARDHANA



## **This economic slowdown is likely to be a major factor impacting Sri Lanka – it has the potential to affect our export growth as well as foreign investment**

governance structures. As long as questions remain about these factors, Sri Lanka cannot be compared to fast-growing economies as investors would prefer destinations with more stable and predictable policy and political environments.

Without cleaning up our system, the engine of growth cannot be reignited. We need policy consistency and certainty, as well as political stability, to attract foreign investors. The nation's economic management should be decoupled from politics; and our talented, well-educated and experienced professionals and intellectuals should be enlisted to run ministries and government institutions.

Sadly, the ideas and talent of our professionals and intellectuals aren't being harnessed adequately. If we get our act together, we can reach much higher levels of prosperity.

**Q: In addition to the industries that have been impacted directly by the 21 April attacks (such as tourism), how can the knock-on effects on other industries – mainly in the SME sector – be addressed?**

**A:** The NEC proposed a series of measures to the government to address the economic impact of the attacks. Some proposals have been implemented – including a relief package supporting the tourism industry. But more should have been done.

We suggested that a national economic support fund be established to assist various affected sectors – including the SME sector – rather than only the tourism industry and hotel sector.

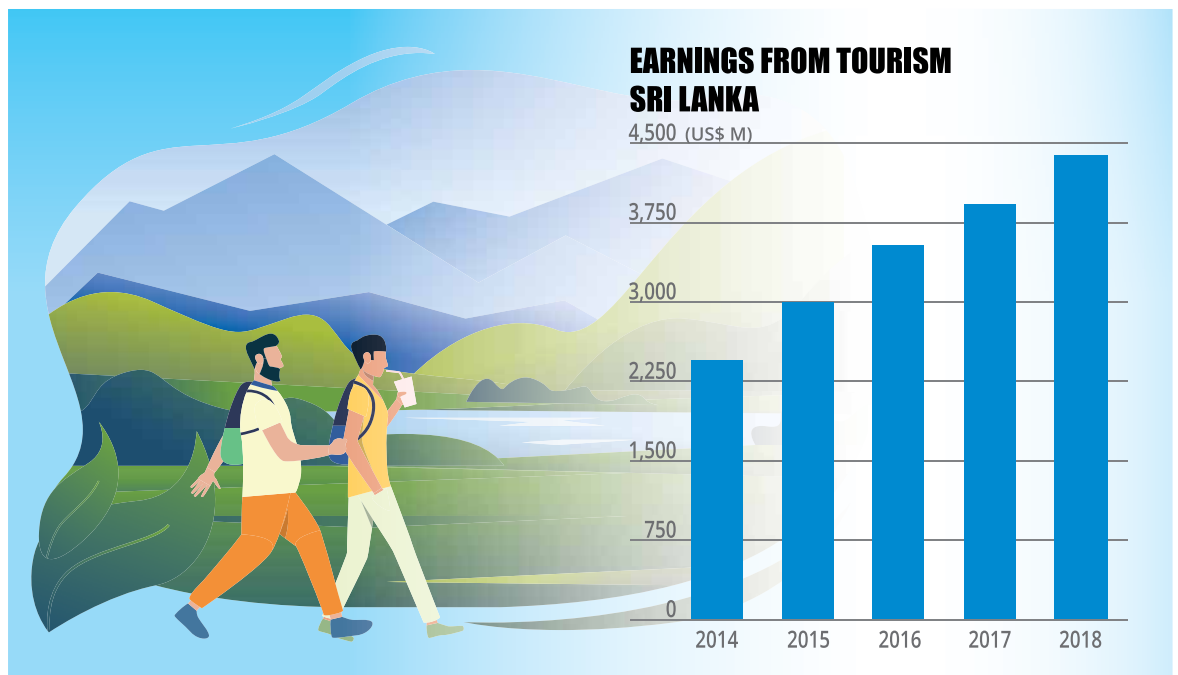
The Easter Sunday attacks have affected the very heart of society, and we need to support people who have also lost their jobs and incomes. A mechanism is needed to support everyone – i.e. from the bottom of the pyramid up to luxury hotels. This could have been achieved by reallocating budgetary resources, and with the support of other countries and foreign organisations.

From an economic point of view, the terror attacks have also resulted in a slowdown in aggregate demand and investment. These must be boosted; and in my assessment, a national economic support fund could generate a speedy recovery.

The annual budget should have been completely revised by now with necessary financial, tax and other incentives provided to businesses, in order to boost commercial, investment and economic activity, and mitigate the negative impact on economic growth this year and beyond.

Unprecedented times call for extraordinary measures.

– Compiled by Lourdes Abeyaratne



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## Technical focus



A discussion between CA Sri Lanka officials and stakeholders on SLFRS 9.

### SLFRS 9 post implementation review

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) adopted the full version of the Sri Lanka Accounting Standards (SLFRS) 9 Financial Instruments in 2014 with an effective date of financial periods beginning on or after 1 January 2018.

Furthermore, with regard to the recent deliberations and report submitted to Prime Minister Ranil Wickremesinghe by the subcommittee, CA Sri Lanka conducted a post-implementation review (PIR) on SLFRS 9 adoption with a series of forums.

These reviews were conducted with the CEOs of licensed commercial banks and specialised banks, licensed finance companies and specialised leasing companies through the Sri Lanka Banks'

Association, Finance Houses Association of Sri Lanka and Leasing Association of Sri Lanka. Moreover, a separate discussion was held with a panel of auditors.

During the consultation, observations and comments on the practical concerns encountered by the financial services industry in relation to SLFRS 9, Basel III and other related regulations issued by the Central Bank of Sri Lanka were collated. Subsequently, CA Sri Lanka developed a report and submitted it to the Central Bank for further consideration on the areas that are under the monetary authority's purview.

Additionally, CA Sri Lanka has issued application guidance notes regarding the implementation of SLFRS 9.

### 1 Impairment of financial asset portfolios

If reasonable and supportable forward-

looking information is available without undue cost or effort, such information shall be used in determining whether there have been significant increases in credit risk since the initial recognition rather than past due status (either on an individual or a collective basis).

Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since its initial recognition when contractual payments are more than 30 days past their due date. That can be rebutted if reasonable and supportable information is available without undue cost or effort to demonstrate otherwise.

Furthermore, with regard to the default definition on an individual instrument basis (which shall be applied in keeping with the definition used for internal credit risk



A round table discussion in progress on SLFRS 9.

management purposes, considering the qualitative indicators when appropriate), there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past its due date, which can be rebutted subject to reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The above provisions are expected to apply with regard to the rebuttable presumption on financial assets. However, in circumstances where reasonable and supportable information is not available in a structured manner, the management may exercise its judgement, taking into account past experience, the business model and the internal credit risk management framework in determining whether the presumption can be rebutted.

In addition, in making such a determination, the regulatory provisions also need to be taken into consideration. For instance, this would include recent concessions on SME loans as mentioned in Circular No. 6 of 2019 issued by CBSL on 26 April 2019.

This also includes the classification of non-performing loans when the payment of the principal or interest, or both, have been in arrears for a period of six months or more as specified in the first point of section 2 of the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006. This would indicate how an entity manages credit risk in terms of its business model.

## 2 Concessions for the tourism industry

With regard to the recognition of interest

income during the moratorium period, interest revenue shall be calculated by using the effective interest method applied to the gross carrying amount of a financial asset that is covered under the moratorium.

However, for financial assets that have subsequently become credit impaired, the effective interest rate shall be applied to the amortised cost of such assets in subsequent reporting periods, provided that the gross carrying amount can be applied again where the credit risk on such a financial instrument improves (so that the financial asset is no longer credit impaired and the improvement can be objectively related to an event occurring after the credit impairment that had previously taken place).

In terms of consideration of rescheduled loans, when there is a significant modification to the original cash flows that could be seen as an expiration of those cash flows, it can lead to derecognition of the financial asset and be considered a ‘new’ financial asset. In such circumstances, the loss allowance is measured at an amount equal to 12 month expected credit losses unless the new asset is credit impaired on initial recognition that requires the recognition of lifetime expected credit losses.

Circumstances may lead to renegotiation or modification of contractual cash flows of a financial asset that does not result in derecognition. This modification will not result in significant deterioration of credit risk during the period of moratorium.

Accordingly, unless it is considered otherwise in the judgement of management, specific circumstances that led to the provision of relief measures by the regulator may not be considered to result in significant deterioration of credit risk during the period from the date of such circumstances occurring until the date of the commencement of the relief measures by the entity.

General disclosure requirements in terms of SLFRS 7 – i.e. ‘Financial Instruments: Disclosures’ – need to be followed in financial statements. In addition to the general disclosures required, in relation to impairment requirements of financial assets that have had modifications to their contractual cash flows, there is a need to provide disclosures as required by paragraphs 35F(f), 35I(b) and 35J of SLFRS 7.



A resource person makes a point at a workshop on SLFRS 9 organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) for stakeholders.

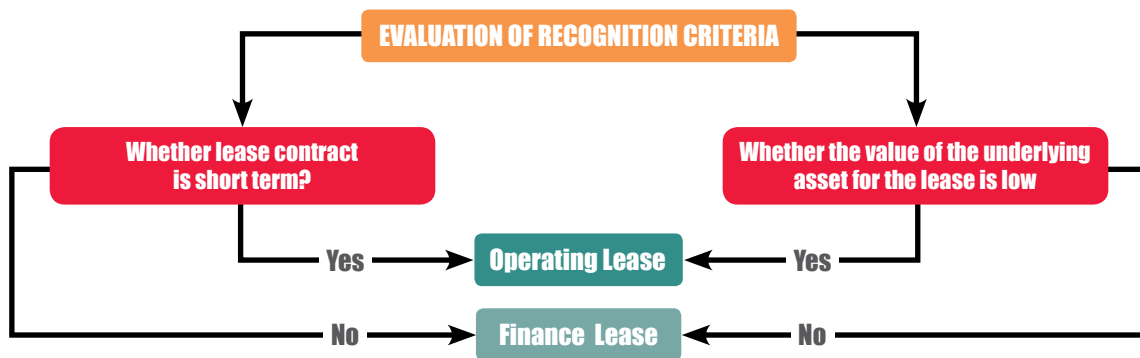




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# Technical focus

## SLFRS 16 LEASES 1 LESSEE



### 1.1 OPERATING LEASE

The lessee shall recognise the lease payments as an expense on either a straight line basis over the lease term or using another systematic basis.

### 1.2 FINANCE LEASE

At the inception of a contract, an entity shall assess whether the contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

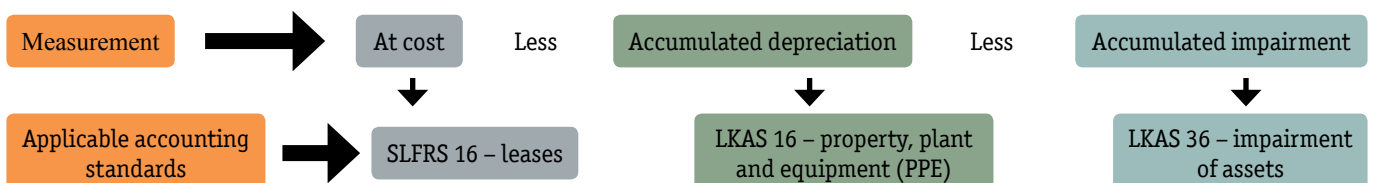
#### 1.2.1 Recognition and measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

##### 1.2.1.1 Right-of-use asset

Initial measurement	Subsequent measurement
<ul style="list-style-type: none"> <li>▪ A lessee shall measure the right-of-use asset at cost at the commencement date.</li> <li>▪ The cost of the right-of-use asset shall comprise:               <ul style="list-style-type: none"> <li>▪ The amount of the initial measurement of the lease liability; and</li> <li>▪ Any initial direct costs incurred by the lessee; and</li> <li>▪ Any lease payments made at or before the commencement date, less any lease incentives received; and</li> <li>▪ An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Cost model</li> <li>▪ Fair value model</li> </ul>

#### Cost model



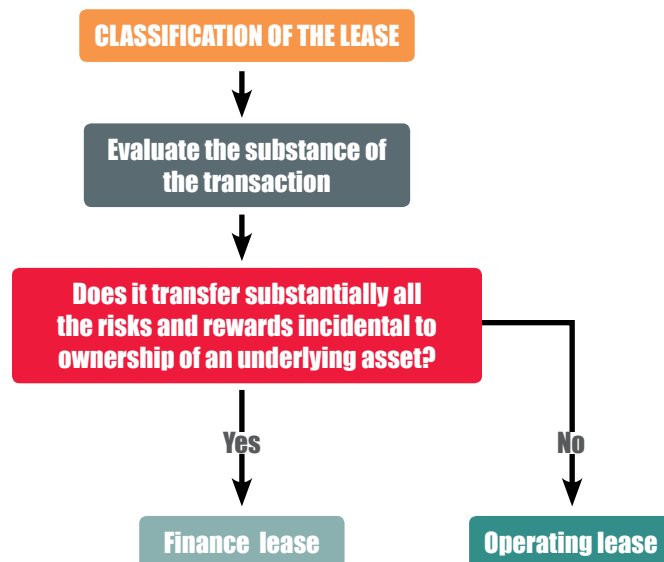
**Fair value model**

- If a lessee applies the fair value model in terms of LKAS 40 Investment Property to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in terms of LKAS 40.
- If right-of-use assets relate to a class of PPE to which the lessee applies the revaluation model in terms of LKAS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of PPE.

**1.2.1.2 Lease Liability**

Initial measurement	Subsequent measurement
<ul style="list-style-type: none"> <li>▪ At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date by using interest rate implicit in the lease.</li> <li>▪ The lease liability comprise the following.                             <ul style="list-style-type: none"> <li>✓ Fixed payments less any lease incentives receivable;</li> <li>✓ Variable lease payments;</li> <li>✓ Amounts expected to be payable by the lessee under residual value guarantees;</li> <li>✓ Payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease;</li> <li>✓ The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.</li> </ul> </li> </ul>	<p>After the commencement date, a lessee shall measure the lease liability by:</p> <ul style="list-style-type: none"> <li>▪ Increasing the carrying amount to reflect interest on the lease liability; and</li> <li>▪ Reducing the carrying amount to reflect the lease payments made; and</li> <li>▪ Declaring that interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.</li> </ul>

**2 LESSOR**



**2.1 FINANCE LEASE**

**2.1.1 Recognition**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.



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## Technical focus

### 2.1.2 Measurement

Initial measurement	Subsequent measurement
<ul style="list-style-type: none"> <li>▪ At the commencement date, a lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.</li> <li>▪ The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease.</li> <li>▪ Initial measurement of the lease payments included in the net investment in the lease comprise the following.               <ul style="list-style-type: none"> <li>✓ Fixed payments less any lease incentives payable</li> <li>✓ Variable lease payments</li> <li>✓ Any residual value guarantees provided to the lessor by the lessee</li> <li>✓ The exercise price of a purchase option if the lessee is reasonably certain to exercise that option</li> <li>✓ Payments of penalties for terminating the lease.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ A lessor shall recognise finance income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.</li> <li>▪ A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.</li> </ul>

## 2.2 OPERATING LEASE

### 2.2.1 Recognition

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

### 2.2.2 Measurement

Item	Accounting Treatment
Lease rentals	Recognise lease payments from operating leases as income on either a straight line basis or another systematic basis.
Depreciation or amortisation	Calculate depreciation in accordance with LKAS 16 or LKAS 38.
Direct costs incurred	Add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise as an expense over the lease term on the same basis as the lease income.
Impairment (if any)	Apply LKAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.





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## Ethics Committee

The Ethics Committee received five new complaints for the period from 1 January 2019 to 31 March 2019.

1. A complaint was received alleging that a member was involved in unlawful payments of brokerage commissions, providing inaccurate information to regulatory authorities and allegedly being involved in the misappropriation of funds while assisting a former employee of that company in obtaining two loan facilities against its fixed deposits without due authorisation.
2. A complaint was made against an individual who was portraying himself as a chartered accountant.
3. In 2014 and 2015, the management of a quoted public company changed in a hostile manner, resulting in the new management being unable to obtain any books of accounts from the previous management. Due to these reasons, the predecessor auditor had referred to a number of instances in which the company failed to maintain proper books of accounts and related records for which a disclaimer of opinion had been expressed by that auditor.

When the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) discussed these matters with the current management of the quoted public company, it assured that the issues pointed out by the previous auditor had been resolved. Therefore, an unqualified opinion was issued by the current auditor for the year ended 31 March 2019.

Accordingly, SLAASMB carried out an inspection of the audit of that quoted public company for the year ended 31 March 2016 to ascertain the basis on which the predecessor auditor's issues had been resolved.

However, based on SLAASMB's inspection, it was revealed that the current auditor had not conducted the audit in accordance with Sri Lanka Auditing Standards. Accordingly, a complaint was filed with the Institute of Chartered Accountants of Sri Lanka against the current auditor for noncompliance with auditing standards.

4. A member was accused of issuing clean audit opinions for a low fee although an audit was not performed. Furthermore, the complaint alleges that the member is

assisting companies with tax evasion and also employing chartered accounting students as trainees but not providing them with proper training.

5. The auditor of a condominium management corporation was accused of the following:
  - (i) The wording used in the audit opinion is outdated and there are inconsistencies in the wording used.
  - (ii) There are multiple errors and contradictions in the financial statements (the complainant has highlighted these alleged errors).
  - (iii) Total amounts collected for the period December 2018 to May 2019 have been recognised as revenue and not prepayments.
  - (iv) Interest earned on the sinking fund has been recognised as revenue rather than being capitalised.
  - (v) Tax has been charged with no explanation as to why the condominium management corporation is paying taxes.
  - (vi) Depreciation should be charged from the date of purchase and not for nine months since the condominium management corporation operated only for seven months (from 1 June 2018).



## Young chartered accountants

# Leading the Next Generation

**Jani Ganeshan** focusses on the role of young chartered accountants



#### SRI LANKA SWOT ANALYSIS

##### STRENGTHS

- Excellent geographic location and favourable year-round climate
- High level of literacy amongst the workforce
- Emergence of a new breed of young and ambitious entrepreneurs

##### WEAKNESSES

- Labour leakage and shortage – and increasing labour costs
- Western Province oriented public services
- Political influences

##### OPPORTUNITIES

- Expansion of global markets
- Investments in technical efficiencies
- Being a war free country

##### THREATS

- Volatile foreign exchange rates
- Cheaper overseas labour
- Export of technical skills

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## What sets us apart from other finance professionals to this day is the distinctive nature of the practical training

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**Q: How do you view the accounting profession in the Sri Lankan context?**

**A:** Accounting professionals should maintain high standards in their work at all times as they're often portrayed as protectors of the public interest.

Modern stakeholder expectations are such that businesses must not only improve their top line but pay attention to detail in each and every process. As such, armed with professional scepticism, independent thinking and a questioning mind, accountants should be equipped to help local organisations foster an enduring culture.

**Q: What motivated you to become a member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)?**

**A:** This was mainly because of its reputation in the fraternity compared to other accountancy institutions. With time, I understood that CA Sri Lanka's status was gained through the training that members such as myself underwent from the early stages of our careers.

What sets us apart from other finance professionals to this day is the distinctive nature of the practical training.

**Q: In what ways has this membership contributed to your personal and professional development?**

**A:** It's my view that you cannot segregate personal from professional development as each contributes to creating a whole individual.



### THREE ATTRIBUTES THAT HAVE LED TO YOUR SUCCESS

Self-reliance  
Determination  
Integrity

### THREE ITEMS THAT ARE ON YOUR DAILY 'MUST DO' LIST

Priority list to plan my day  
Declutter my workspace  
Consume adequate water

### THREE THINGS THAT YOU EXPECT FROM YOUR TEAM

Flexibility  
Adherence to deadlines  
Willingness to accept challenges

### THREE THINGS THAT YOU EXPECT FROM YOUR PEERS

Sharing knowledge  
Respecting each other  
No window dressing

### ROLE MODELS

**My mother** – she taught me that anything is possible if I believe in myself

**Sanjeewa Jayaweera** – a former John Keells Holdings CFO and an extraordinary finance professional with an eye for detail

**SriLankabhimanya Lakshman Kadirgamar** – an exemplary statesman with a mission

### MODEL NATIONS

**Japan** – for being one of the most innovative countries leading several measures of global patent filings

**Singapore** – a country with the most successful development story of the 20<sup>th</sup> century despite having few natural resources

### MOTTO IN LIFE

Beat the best

We were not trained in a classroom setup. Instead, we were exposed to various business environments, which provided us with a thorough understanding of how business functions. Confidence in ourselves and our abilities was developed during these years to the point that we weren't afraid to approach a CFO or director to clarify a business concern even as a trainee.

CA Sri Lanka created the platform for us to meet people from different levels and walks of life, which challenged our thinking at an early age. This helped mould us not only into competent finance professionals but also business leaders.

### Q: How does the Young Chartered Accountants Forum (YCAF) create a platform for young chartered accountants to develop their leadership and entrepreneurial skills?

**A:** The main objective of YCAF is to uplift the quality of chartered accountancy while endeavouring to enhance the public image of the profession as a whole.

In line with this, YCAF organises a unique gathering called Knowledge Forum, which aims to develop networking, leadership and entrepreneurial skills among young members. We invite business leaders and entrepreneurs to speak at these events, and provide soft skill training in order to develop young members' confidence and ensure that they become strong business leaders in the future.

### Q: As a young professional, what are some of the key reforms that you would like to see in Sri Lanka?

**A:** There's a dire need for the public sector to cultivate receptiveness to competition and provide high quality services that are valuable to Sri Lankans.

Many consider the private sector to be the engine of economic growth but we cannot expect these entities to act alone for the nation's betterment.

Government support is needed to ensure that the private sector can thrive and the benefits of economic growth reach the people. Well planned reforms will benefit Sri Lanka and create a healthy business environment.

Initiatives that encourage female employment and career progression are important to create a gender balance in the workforce.

CA Sri Lanka recently formed the Women Empowerment and Leadership Development Committee to support female members in reaching the highest levels in business and flourishing in the work they do. Similar initiatives are needed from other institutions too.

*The interviewee is the President of the Young Chartered Accountants Forum and Sector Financial Controller at Rockland Distilleries. She was interviewed by Lashani Ramanayake.*





## Tech trends

# Waves of the Future

Lashani Ramanayake examines the role of technology in accounting

**D**igitisation is transforming the accountancy profession, compelling accountants to explore emerging trends and adopt technology to automate often time-consuming or repetitive tasks, and concentrate on higher value adding tasks in line with business strategy and financial planning.

As Agnes Ann Pepe writes in CPA Practice Advisor, “accounting technology has always played a part in making the accountant’s job just a little easier. As our knowledge of technology increased, so has the accountant’s ability to analyse statistical values. Technology advancements have enhanced the accountant’s ability to interpret data efficiently and effectively. He or she now has the ability to interpret the language of business with such ease that the accountant has become a corporation’s most trusted business advisor.”

Analysts are increasingly understanding the usefulness of adapting to technology that can free time from manual reporting tasks so that more time can be spent on developing results achieved through intelligent digital analysis. As such, with its ability to transform data into stunning visuals such as charts, maps, quadrants and graphs that deliver insights to make quick and informed decisions, a revolutionary platform to look out for is Power BI by Microsoft.

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**Analysts are increasingly understanding the usefulness of adapting to technology that can free time from manual reporting tasks**

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Power BI is a collection of software services, apps and connectors that work together through interactive interfaces. These real-time dashboards enable users to identify significant trends, focus on problem areas and create actionable solutions.

The service consists of three elements:

Power BI Desktop, which is a Windows desktop app; the Power BI service, an online software as a service (SaaS); and mobile apps for Windows, iOS and Android devices. The way in which these components are utilised depends on the role of the end user.

With Power BI, the flow of work begins when a user connects to relevant data sources and builds a report in the desktop app. This report can be published to the Power BI service so that other users can view and interact with it even through mobile devices.

The transformative business intelligence and analytics tool can be accessed on the premises and through the cloud. It enables collaboration with colleagues and business partners with options to share customised dashboards and reports, and even export report data to Microsoft Excel.

Power BI’s flexibility enables users to scale the system across any organisation with built-in governance and security functions to provide data safety in an age where cybersecurity is the foremost concern when using digital products. As such, if a user prefers to avoid sharing his or her reports over the cloud, the Power BI Report Server provides the same level of interaction from behind the safety of a firewall.

Another unique feature of the service is that end users can create reports and dashboards for themselves without having to depend on IT staff or database administrators. This empowers business, financial and data analysts to take control of their work in new ways that were previously explored in a limited manner.

As with all technological advancements, it’s important for modern accountants turned business advisers to stay abreast of the additional skills required to operate successfully in this changing landscape – without which the full benefit of these trends would not be derived.

Therefore, soft skill development is a vital part of human resource development that organisations and individuals must not overlook. No amount of technological advancement should eliminate professional scepticism, interpersonal relations and negotiation skills – in addition to communication and critical thinking skills – that must be embedded in an organisation’s culture.

Furthermore, these factors should also be part and parcel of the character of forward-thinking and tech savvy accountants, as they ride the waves of the future and play an active role in transforming the accountancy profession.



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## Calculative insights



MEDIA SERVICES PHOTOFILE (ESHAN SILVA)

# Life Beyond Numbers

**Professor Samanthi Senaratne** explains the vital role of soft skills

**Q: Often, accountants are rightly or wrongly stereotyped as 'number crunchers.' What are your thoughts on this?**

**A:** The traditional understanding of the accounting profession is that it merely involves preparing financial statements, tax returns and audit reports. However, the scope of the profession is much broader, and the role of accounting is constantly evolving in response to socioeconomic and political changes.

The preparation of financial statements has evolved into integrated reporting, which focusses on different forms of value creation to align with business strategy. Therefore, an accountancy professional produces information from a broader perspective for problem solving and decision making at different levels of management.

A key reason for this change is the advent of technology in the field of accountancy. IT based accounting systems can record large volumes of data and generate financial reports in a fraction of time compared to traditional methods.

However, software engineers and IT specialists alone cannot develop comprehensive accounting systems. They will need the help of accounting professionals to identify the processes required and analyse computer generated information.

**Q: Are there communication gaps between the accounting fraternity and general public? If so, why?**

**A:** While organisations are more aware of the holistic and strategic role accountancy professionals undertake, these developments are not adequately communicated to people outside the corporate world. This has created a knowledge gap between these two groups.

This lack of awareness is present even among university students and many of them believe that accountancy is a narrow field of study. This limited view is





INGIMAGE®

developed at school level when commerce students learn the basics of accountancy, which primarily revolves around numbers and procedures.

Of course, this entry level does not portray the logical connectivity of numerical calculations to the broader business perspective. As such, students do not understand the story behind

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## **The preparation of financial statements has evolved into integrated reporting, which focusses on different forms of value creation to align with business strategy**

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these numbers although accountancy is considered to be the language of business.

Professional accounting bodies and universities must play an active role in explaining the broader meaning and impact of accounting to society, and communicating the diverse roles that such professionals take on – e.g. as

financial controllers, financial analysts, treasurers, chief risk officers and forensic accountants.

**Q: Why is merely focussing on the technical aspects of the accountancy profession insufficient, in your opinion?**

**A:** Usually, the most hated person in an organisation is the man or woman in charge of the finance function. People perceive them as the ones who deny approvals for new projects and always focus on reducing costs.

However, what is less observed is the immense pressure they're under to ensure that actual results are within budget, oversee cost control and ensure optimal use of resources in an organisation.

Accountancy professionals rarely take adequate steps to help others understand the importance of these functions to organisational success and the reasons for their actions. Therefore, solely developing the technical know-how of accounting professionals is insufficient – we need to encourage interpersonal relationships that facilitate open communication and understanding amongst colleagues.

Moreover, fast-paced lifestyles in an



INGIMAGE®

## Character traits such as leadership qualities, adaptability, flexibility, integrity and objectivity are essential for personal development

era of rapid digitalisation demand that accounting professionals learn to manage stress and time while executing their roles, and improve their digital literacy and data analytics skills.

### Q: Which soft skills should professional accountants develop to progress in their careers?

**A:** There's a range of soft skills, which can be categorised broadly into three areas – viz. higher order, basic and character.

Higher order skills like conceptualisation, critical thinking, creativity and problem solving may not be required in every cir-

cumstance; but they're useful, and essential for complex situations and relationships.

Character traits such as leadership qualities, adaptability, flexibility, integrity and objectivity are essential for personal development. Furthermore, professional curiosity spurs interest in seeking new solutions and developments, which leads to advancements in the field of accounting.

In the present context, numeracy, digital literacy and communication skills are must-haves for accounting professionals to carry out their general functions.

### Q: Which methodologies or tools could professional accountants utilise when developing their soft skills?

**A:** Soft skills can be learnt and developed in different ways.

You could develop yourself through personal reflection. Reflective learning will enable an individual to improve by considering his or her decisions and actions, and how successful the outcomes were.

And you could attend workshops or training programmes related to the skills that you want to develop – such as writing, speaking or digital literacy, for example. Becoming a member of clubs and societies that have a variety of activities will also expose you to various opportunities to develop yourself.

Another way is to observe people and learn from how they conduct themselves – such as from people who are good at making decisions in high stress situations, have good leadership qualities and relational skills, and are able to engage and negotiate with others – be it in school, university, the workplace or even within the accounting fraternity.

*The interviewee is a professor at the Department of Accounting of the Faculty of Management Studies and Commerce at the University of Sri Jayewardenepura. She was interviewed by Lashani Ramanayake.*

**Biz travel**



## THE DESERT OASIS

# DUBAI

**Lashani Ramanayake** highlights the city's appeal for biz travellers

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Located on the east coast of the Arabian Peninsula, the vibrant city of Dubai in the UAE is a melting pot of culture, tradition and modernity. Its sunny atmosphere beckons millions of leisure and business travellers to its shores especially during summer. And whether one opts for a panoramic city excursion on one of the famous Big Bus tours or a more personalised experience armed with only a smartphone, the city will capture the imagination of everyone in the family.

As the land of the superlative, Dubai claims to have it all – the first, tallest, deepest or most expensive – with luxurious hotels, expansive shopping malls, exciting adventure parks, a fascinating heritage, a thriving commercial community and the latest in tech innovation.

With a flight time of only four hours from Sri Lanka, the emirate is highly connected and home to one of the world's busiest airports. Ideally situated with sea and land connectivity, the city acts as a gateway to the Middle East and North Africa (MENA) region.

The UAE has diversified its economic interests in sectors such as transport, healthcare, trade, finance, technological innovation and tourism to mitigate the fluctuating price of oil.

In addition to this, Dubai actively fosters an entrepreneurial culture, and provides access to many facilities and hubs for innovation. This forward-looking approach makes the city an ideal location for annual trade shows and conferences. So from international conferences on subjects such as engineering, architecture and ICT, to hosting the World Congress on Gynaecology and Women's Health, Dubai's business calendar is filled throughout the year.

Newcomers to the city may be surprised by some of its business customs. While the working week differs from business to business, it usually runs from Sunday to Thursday. And a conservative dress code is encouraged for business meetings although the degree of formality varies with clients and venues.

#### DO

- Remove your shoes before entering a Muslim home or mosque
- Offer a small token or gift to your host on being introduced
- Dress respectfully and conservatively
- Be punctual

#### DON'T

- Eat in public during Ramadan
- Drink alcohol in public
- Ask for pork or food that contains pork
- Cross the street at undesignated areas





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**LANDMARKS**

- Burj Khalifa
- Burj Al Arab
- Dubai Marina
- Dubai Opera

**SHOPPING**

- The Dubai Mall
- Palm Jumeirah
- Dubai Spice Souk
- Dubai Gold Souk

**HISTORY**

- Dubai Museum
- Etihad Museum
- Falcon and Heritage Sports Center

**ADVENTURE**

- Desert safaris
- MOTIONGATE Dubai
- Bollywood Parks Dubai
- LEGOLAND Dubai
- Hatta
- Ski Dubai

**BEACH**

- Kite Beach

**SIGHTSEEING**

- Big Bus Dubai sightseeing tour



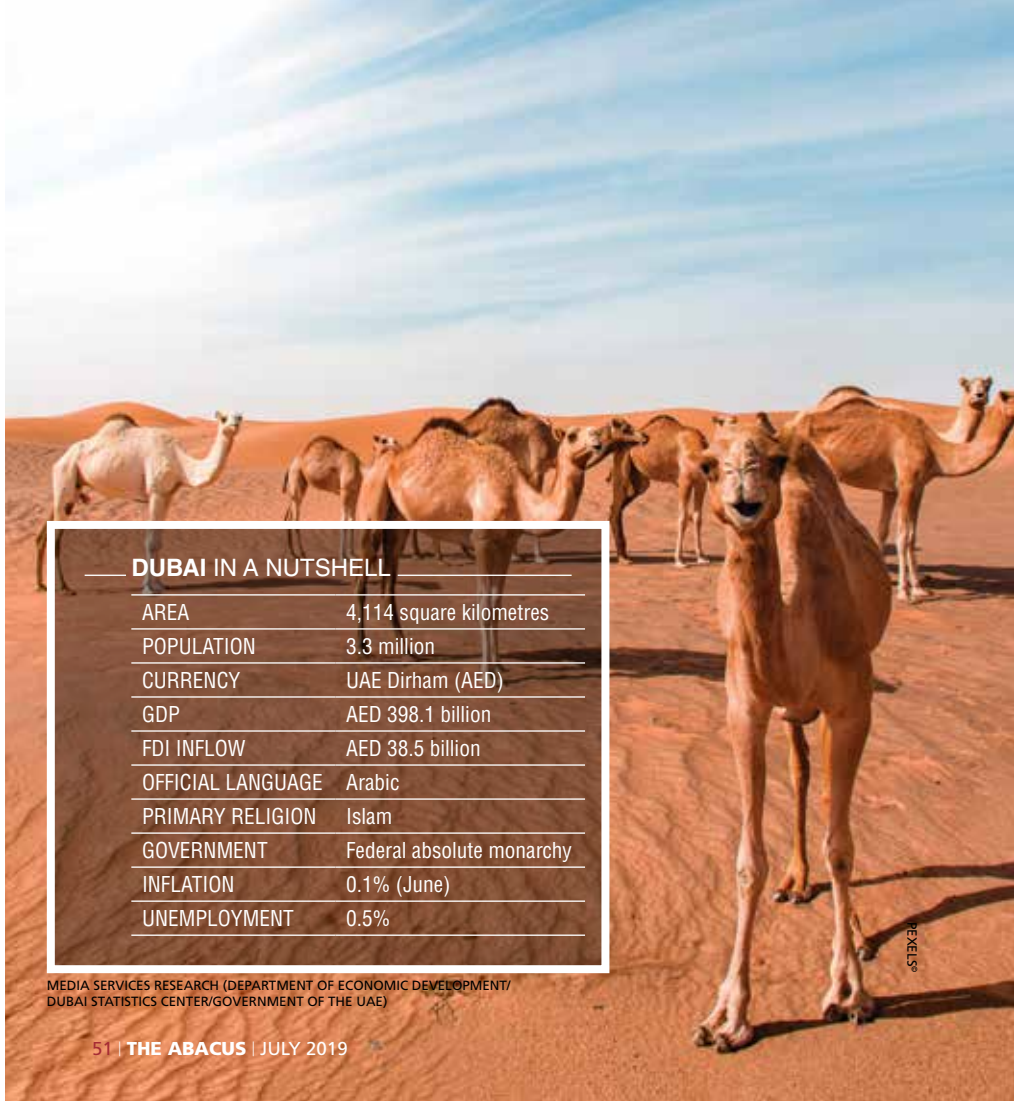
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Although it has been touted as one of the world’s most expensive cities, don’t be misguided by the notion that you have to be a millionaire to enjoy Dubai!

Boldly step into the red carpeted lobby of the Burj Al Arab and enjoy five-star deluxe treatment – from being pampered at the Talise Spa after a long business meeting to enjoying cocktails at the Sky-view Bar and Restaurant – as you watch the city transform with its glittering lights and electric nightlife.

A casual stroll amongst the aromatic spice laden stalls in the alleys of the spice souk will whisk you away to the historical times of royalty and grandeur. Jute sacks line its streets, overflowing with ground cardamom, cumin, frankincense, cinnamon sticks and cloves. The air is heavy with the fragrance of spices, herbs, nuts, pulses, chillies and dried fruits, which will enthrall your senses as you go about haggling for that perfect bargain.

As the city prepares for the grand opening of Expo 2020 where global participants will be hosted for 173 days under the theme ‘Connecting Minds, Creating the Future,’ Dubai shows no sign of slowing down. Indeed, the city continues to race in top gear towards an innovation led future.



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**DUBAI IN A NUTSHELL**

AREA	4,114 square kilometres
POPULATION	3.3 million
CURRENCY	UAE Dirham (AED)
GDP	AED 398.1 billion
FDI INFLOW	AED 38.5 billion
OFFICIAL LANGUAGE	Arabic
PRIMARY RELIGION	Islam
GOVERNMENT	Federal absolute monarchy
INFLATION	0.1% (June)
UNEMPLOYMENT	0.5%

MEDIA SERVICES RESEARCH (DEPARTMENT OF ECONOMIC DEVELOPMENT/ DUBAI STATISTICS CENTER/GOVERNMENT OF THE UAE)

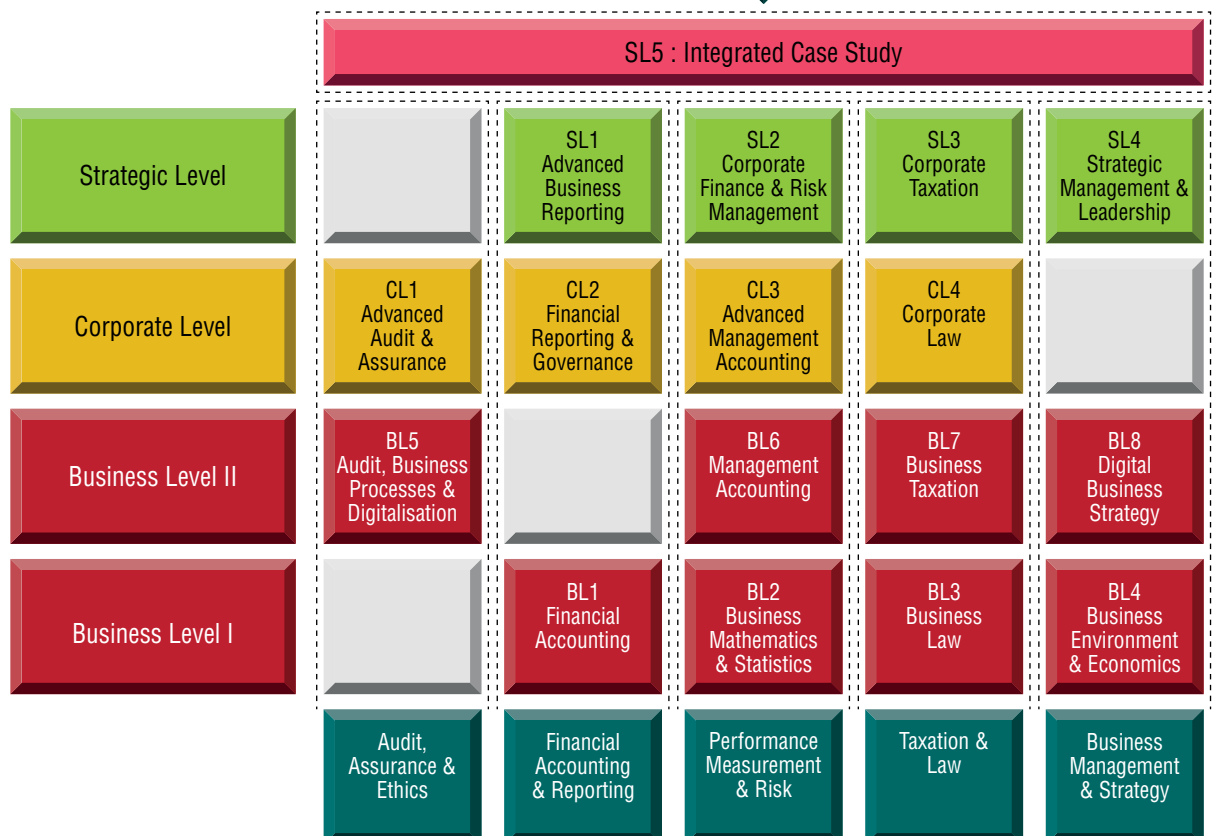
# Curriculum 2020

## Empowering Finance Professionals of the Future

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) launched its Curriculum 2020 on 25 July 2019, which is applicable to examinations from March 2020. Curriculum 2020 has incorporated many areas including professional skills, and information and digital technology, to help chartered accountants perform their functions efficiently and contribute to the business world effectively. Furthermore, the new curriculum has been developed to

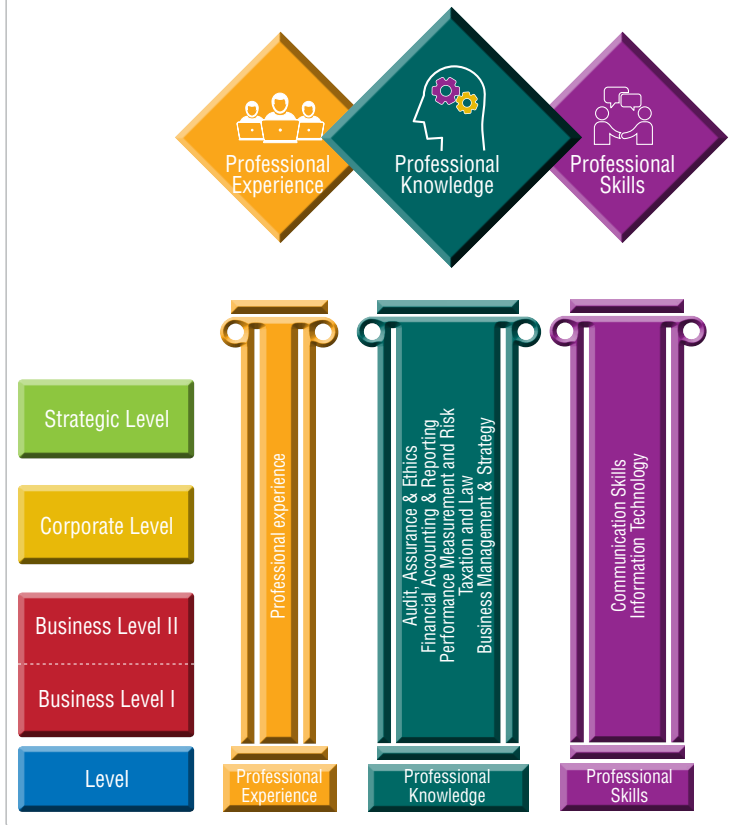
meet the necessary requirements set out by the International Education Standards (IESs) of the International Federation of Accountants (IFAC).

While fulfilling required IFAC IESs for professional accountants, Curriculum 2020 takes great strides beyond this to entrench strong business intelligence skills through emphasis on the role of development in digital technology in augmenting the accounting function.





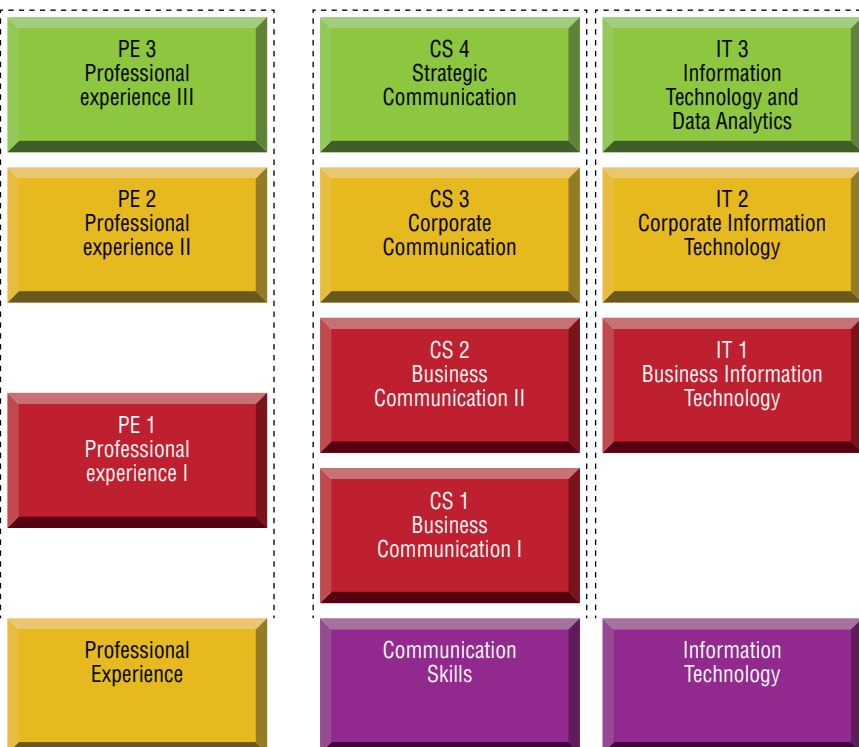
Structure of Curriculum 2020 - Pillars and Levels



What's new?

1. A holistic approach to accountancy
2. New course areas for specialisations
3. Multiple qualifications within the curriculum at every level
4. A strong emphasis on digitalisation
5. Enhanced service delivery, e-learning and combined assessments
6. Soft skills such as speech craft, advanced business report writing, and a residential programme on entrepreneurship skills, business acumen and professional skills
7. An intensive understanding of ethical financial reporting

For more details on CA Sri Lanka's Curriculum 2020, please visit [www.casrilanka.com](http://www.casrilanka.com).



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<https://bit.ly/2G2h447>

**For more information:**

email [sajani.kariyawasam@casrilanka.org](mailto:sajani.kariyawasam@casrilanka.org)

# SAGA OF AN ENDURING JOURNEY



OUR HISTORY  
1959 - 2019

CA



THE INSTITUTE OF  
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## Soft skills

*Select the right word from the pair that is given in brackets*

If you spend more than 13 minutes **(analysing/finalising)** economic and market forecasts, you've wasted 10 minutes.

The fundamental principles of free trade should be upheld, the interests and concerns of all parties accommodated, and the broadest possible **(census/consensus)** on reform built. Taking a unilateralist approach will not solve any problems.

Organisations **(desist/resist)** innovation and those that do inevitably fail because people are more comfortable with what they know than with what they don't.

The Sino-US trade war is not only **(effecting/affecting)** China and the US; it is affecting everybody. Such decisions are impacting the world and it shouldn't be the right of one person to make them.

I freely admit that when I started this job, I didn't understand some of the deep-seated and deep-rooted issues there are in Northern Ireland. I didn't understand things like when **(elections/allocations)** are fought in Northern Ireland for example, people who are nationalists don't vote for unionist parties and vice versa.

Finance can change the world and create millions of jobs by **(embedding/empowering)** people with ability.

What you can change is the things you plan and choose to do. Of course, you're operating in an environment with a bleak **(outlook/outlay)** but it's the same for your competitors as well – you have financing problems and so do your competitors. You don't need to do a zillion things; you need to do something right.

In a game based on the acclaimed novel *A Very British Coup*, 50 players take on the

roles of the different factions of the 1980s Labour Party. They must compete and collaborate to ensure that their preferred policies are **(priorities/prioritised)** by the new government. Others are playing the malign forces of the deep state whose task is to frustrate and sabotage the realisation of Labour's socialist programme.

*Test your knowledge*

**Analysing:** To examine in detail in order to discover meaning, essential features.

**Finalising:** To complete arrangements or negotiations; reach agreement on a transaction.

**Census:** An official, usually periodic enumeration of a population.

**Consensus:** An opinion or position reached by a group as a whole.

**Desist:** To cease doing something.

**Resist:** To remain unaltered, undamaged or unaffected by; withstand.

**Effecting:** Something brought about by a cause or an agent; a result.

**Affecting:** To have an influence on.

**Elections:** The selection by vote of a person or persons from among candidates for a position.

**Allocations:** The designation of items for a specific purpose or to a particular place.

**Embedding:** To cause to be an integral part of a surrounding whole.

**Empowering:** To equip or supply with an ability; enable.

**Outlook:** Expectation for the future.

**Outlay:** The spending or disbursement of money.

**Priorities:** The right to be first or ahead of the rights or claims of others.

**Prioritised:** To treat or consider as of greater importance than other matters.



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