the Abacus

INTELLIGENCE & INSIGHT FROM CA SRI LANKA

DECEMBER 2013 | WWW.CASRILANKA.COM

First Disrupt, then Grow Up

Reeza Zarook was burning an online retail trail when Dialog invested in the firm. It's since had to grow up fast

CA
THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF SRI LANKA

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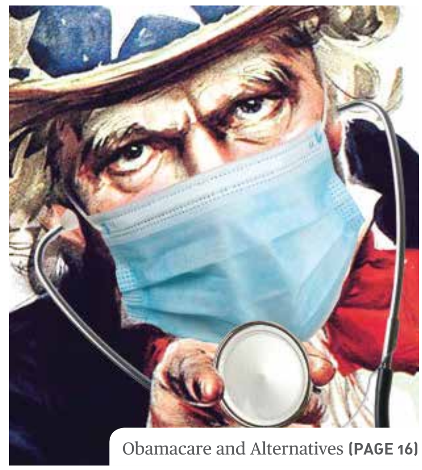

Obamacare and Alternatives (PAGE 16)

Delhi is one of the world's oldest capital cities and known as the epicenter of Indian cultural renaissance, with a breathtaking variety of architectural styles and historical monuments. But it is not a city trapped in history, instead moving with time. Recent additions to the skyline, moving away from traditional designs ensure Delhi's place amongst the world's foremost cities.

A city that moves with time and creates history (PAGE 59)

Intelligence & Insight from CA Sri Lanka

Nurturing innovation

This edition of The Abacus has innovation in focus. The constant references to the importance of innovation and the persistence with which governments and the corporate sector, both start-ups and conglomerates alike, pursue this activity demonstrates its essential nature.

Our cover story on Anything.lk illustrates how the online retail start-up has grown and become important enough to be partly acquired by one of the biggest listed firms, Dialog Axiata. Dialog itself is exploring ways of taking advantage of the expanding digital commerce universe.

Innovation, seen as a key driver of business growth today, was also the theme of this year's National Conference organised by CA Sri Lanka. It explored how the ability to not only innovate but to bring innovations successfully to market has become an important challenge for organisations and professionals. It is innovation that is the critical factor in determining the competitiveness of companies and countries and ensuring commercial success in an increasingly competitive global economy.

The technical sessions of the conference had an impressive line-up of prominent business leaders and foreign experts. One of the highlights of the sessions was the memorable presentation by Rohan Pallewatta, Executive Chairman of Lanka Harness Co (Pvt) Ltd., a company which makes impact sensors for automobile airbags and seat belts for Toyota and other big global car manufacturers. He is not only one of the island's best manufacturers but a good raconteur as well, and his story, which held the audience spellbound, is sure to inspire many others.

CA
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is one of the largest professional organizations in Sri Lanka in which 5,400 chartered accountants have obtained membership. The Institute provides insight and leadership to the accountancy and finance profession in Sri Lanka as well as globally.

Our well qualified members are trained to provide financial knowledge and guidance based on the highest professional, technical and ethical standards, thereby assisting communities and organizations gain long-term sustainable economic growth.

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A word from the President

Growing bigger and better

As one of the country's pioneering and leading professional organisations, CA Sri Lanka today boasts of a prestigious and impeccable standing, and as a professional institute, we believe we have an important and responsible role to play in helping uplift the standards of the profession as well as society in general

As we draw close to the end of yet another eventful year, 2013 has been a very proactive year for CA Sri Lanka which has given us many reasons to celebrate having witnessed some historic milestones and landmark achievements since the beginning of the year.

As one of the country's pioneering and leading professional organisations, CA Sri Lanka today boasts of a prestigious and impeccable standing. As a professional institute, we believe we have an important and responsible role to play in helping uplift the standards of the profession as well as being a pillar of strength to the economic goals of our nation.

Despite being a local body, CA Sri Lanka boasts of an international outlook and every effort was made in 2013 to complement this important goal and in keeping with this objective our institute was the proud host to a series of internationally renowned accounting events which were held during the year.

However the highlight of 2013 was the commencing of business operations from our Rs. 550 million worth multi-storied luxury building complex during the early weeks of this year, although the official opening ceremony was held in late December 2012 under the distinguished patronage of President Mahinda Rajapaksa.

In keeping with our continuing endeavor to be bigger and better and to provide our increasing number of stakeholders with very best of qualifications and services, CA Sri Lanka rewrote the history books when it launched its first ever degree in applied accounting during the early months of 2013.

The launching of the BSc. in Applied Accounting approved by the University Grants Commission was also an important landmark in the tertiary education sector of Sri Lanka as it aspires to bridge the growing gap in the dearth of university level education in the country due to the limited number of intakes to local universities.

The year 2013 was a very eventful year for CA Sri Lanka. Despite growing adversities, we worked tirelessly to keep up with constant global changes and every effort was made to ensure our stakeholders were provided with the best of services and opportunities.

During the year we offered our members a series of ground-breaking programmes of international repute which were conducted by INSEAD, one of the world's leading and largest graduate business schools followed by another programme which was conducted by Duke Corporate Education (Duke CE), the world's number 1 custom executive education provider.

A multitude of CEO and CFO Forums organized by our institute gave the required boost in our continuing journey to educate our country's business leaders, accounting and finance professionals on global trends and other topical matters. CA Sri Lanka also lays claim to organising the country's first ever series of programmes on the highly topical integrated reporting issue which featured Superna Khosla, Relationships Director of the International Integrated Reporting Council.

In 2013, CA Sri Lanka also signed several agreements with various local and foreign organisations aiming at increasing the knowledge capacity of our members and students of CA Sri Lanka. However, the highlight of these agreements was the Mutual Recognition Agreement signed between CA

Sri Lanka and CPA Australia, which removed barriers and allowed appropriately qualified members of each body to apply for membership from the other body, while also allowing for closer collaboration and cooperation between the two bodies to further enhance the accounting profession.

We also had the opportunity to host Helen Brand, Chief Executive of the Association of Chartered Certified Accountants (ACCA) at our institute during her visit to Sri Lanka, where working towards strengthening the mutual beneficial business relationship between ACCA and CA Sri Lanka was discussed at length.

During 2013, CA Sri Lanka also entered into agreements with the University of Kelaniya, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, commonly known as German Development Cooperation and with the University of Jaffna.

CA Sri Lanka also signed agreements with the Project Management Institute (PMI), the Information Systems Audit and Control Association (ISACA) - Sri Lanka Chapter, the International Information Systems Security Certification Consortium, Inc. (ISC2) - Sri Lanka Chapter and ACL Canada, to enhance the capacity of our stakeholders.

In our capacity as the national body of accountants, we made every effort to strengthen our position both locally and globally and CA Sri Lanka were the proud hosts of the 26th Board Meeting and a series of high-level committee meetings of the South Asian Federation of Accountants (SAFA) together with the highly prestigious SAFA Best Presented Annual Report Awards Ceremony which were held in Colombo.

CA Sri Lanka also hosted the fifth annual meeting of the Asian-Oceanian Standard-Setters Group (AOSSG) which was held in November 2013. AOSSG is a group which aims to play an important role in encouraging the adoption of International Financial Reporting Standards (IFRS) in the region.

Every year we pay tribute to several of our eminent chartered accountants who have spearheaded an invaluable cause in taking forward our profession and uplifting our country. This year too in keeping with this tradition, we took great privilege in honouring Spencer Esmond Satarasinghe, the only surviving member of CA Sri Lanka's first Council with the Lifetime Achievement award for 2013, and inducted Rajan Asirwatham, Parakrama Devasiri Rodrigo and Prof. Lakshman Ravendra Watawala to the CA Sri Lanka Hall of Fame.

Our flagship event, the National Conference of Chartered Accountants was held in October with a distinguished participation of business leaders, government hierarchy and our members. The conference received a tremendous boost with the participation of the Chairman of Maruti Suzuki India Limited, R C Bhargava as the chief guest and Ruth Richardson, former finance minister of New Zealand, as the keynote speaker which focused on the inspiring topic 'Innovate to Grow'.

In 2013, we were also witness to another groundbreaking initiative, when CA Sri Lanka's Strategic Level Examinations went global, turning a new chapter in the institute's illustrious 53-year long history. A significant number of our students living and working in Qatar were given the opportunity to sit for the exam and continue their progression to be members of our prestigious body.

The Annual Report Awards Competition in its 49th year this year, saw its highest ever number of applications received for the competition which promotes transparency and good governance. This year's competition has received a total of 126 applications from a multitude of organisations including leading banks, finance organisations and top conglomerates in the country.

In our journey to be better and to provide you the best, CA Sri Lanka has also embarked on a fresh renovation project identified as 'Phase 2' which will see the renovation of two floors of the Institute's old wing, main hall and the auditorium at an estimated cost of Rs. 100 million.

Work on the Phase 2 renovation project commenced in October this year and is expected to be completed in January 2014. With its completion one can expect better services and facilities in the institution's continuing journey to provide the very best in the years to come. CA Sri Lanka has undoubtedly grown to be bigger and better in terms of its standing as a globally recognized accounting body in recent years.

When I took over the reins as the 21st President of this prestigious Institute, I gave an undertaking to my profession, my institute and my members to help elevate our chartered accountancy profession to greater heights and as I come to the end of my tenure, I can very comfortably declare that our institute and our profession have grown to be bigger and better in the past two years.

The journey ahead is not smooth, and as we continue to progress with time amidst relentless changes and challenges, together we can be better, bolder but most importantly strive to be the best among the best.

Sujeewa Rajapakse
President
CA Sri Lanka

Periscope

SOCIAL MEDIA MARKETING FOR SMPs

Social media can be an effective and low-cost way for small- and medium-sized practices (SMPs) to win new clients.

And the acquisition of new clients remains a dominant driver of profitability for SMPs, according to a recent survey done by the International Federation of Accountants.

Social media like blogging, LinkedIn, Facebook and Twitter's Small Business Guide is now seen as one of the most powerful tools to engage customers and drive revenue growth.

"Social media is a low-cost channel with a very wide reach into your target market," says a recent IFAC report which looked at the role of social media in acquiring new clients and driving practice profitability.

Essentially taking traditional word-of-mouth marketing, which historically has been the norm for accountants, social media's use as a marketing strategy has grown in prominence and it has now gone from marginal to mainstream.

But few small businesses and practice still make full use of social media

Getting in to social media marketing requires some home work, though, and IFAC has a number of guides that will help SMPs. (See www.ifac.org/SMP).

Just like any other marketing strategy, it will take time and expense to plan and execute.

One tip is to aim to provide content that "creates conversation" rather than advertises and to involve staff from the millennial generation as they often have the most experience.

SMPs using social media will need to evaluate and update their strategy and monitor the return on investment using common metrics including likes, shares, followers, traffic, and conversions.

ONLINE ACCESS FOR SMEs

Small and medium enterprises have been given their own website under an initiative by the Ministry of Industry and Commerce with direct trading with global buyers the next step.

The sme.lk site, developed in partnership with Lanka Bell, will integrate SME players and their product information to a database. In its second phase, the database will be upgraded to an online portal – a single window of Sri Lankan suppliers within the SME framework.

It opens the door to local SMEs to register and display their product details after which interested buyers can link to them. SMEs need to register with the site first, which will provide each SME with their own homepage.

26
Number of categories of products listed on sme.lk

Presently sme.lk lists 26 categories of products ranging from agriculture & food, apparel & accessories, to arts & crafts, coconut products, computer products, and tea and toys.

The SME sector contributes to almost 70% of the economy

"There has been no proper platform for our SMEs to link to e-business or to many other international buyers," said Lakshman Wijeyawardena, Director of the National Enterprise Development Authority. "There is no full database on Lankan SMEs either."

SME service providers such as financial institutions, credit agencies and machinery sourcing contacts can also display their information at sme.lk, allowing SMEs to obtain their requirements from a single online location.

90% of the 300,000 vehicles entering Colombo each day

are parked on 16 private vehicle parks, TKS Securities said in a report. CMC owns and manages only 2,000 slots. Present low yields of only 4-5% from private car parks discourage more investment in this business despite clearly strong demand

105,000 Metric Tonnes

of cement were supplied over three-and-a- half years by UltraTech Cement Lanka to build the four-lane 25-km Colombo-Katunayake Expressway enabling travel between the capital city and international airport in 20 minutes at speeds of 80-100kmph

1Gbps - 10Gbps

Speed of Sri Lanka Telecom fibre optic-based telecommunications network along the Colombo-Katunayake Expressway to support high-capacity, fault-free data connectivity for traffic management, safety, Closed Circuit Television surveillance and electronic toll gate operations

37%
Retail sector contribution to Richard Pieris operating profit

VAT SQUEEZES ARPICO MARGINS

The new value-added tax (VAT) on supermarkets has hit margins at the Arpico retail sector of the Richard Pieris and Company group which operates the third largest retail chain in the island.
Earnings Before Interest and Tax (EBIT) of Arpico shrank to 5% in the first quarter of the 2014 financial year from a previous 7% recorded in the comparative quarter. Operating profit of the sector fell by 28% to Rs197 million in the quarter from a year ago.
"Although the sector would be a key contributor to the top line, contributions to the operating profit levels would be considerably hit," said TKS Securities in a report.
But the stock brokers believe the company's continuous commitment towards widening the supermarket chain, inelastic demand and changing consumer trend towards hypermarkets in Sri Lanka, would ensure retail remains a growth driver for the group.
"Arpico hypermarkets remain attractive vis-à-vis other supermarket chains such as Cargills and Keells Super owing to the convenience factor (all goods under one roof) which urban working populations pursue."
The group's retail business still contributes nearly half of revenue and was the highest contributor to the group in terms of operating profit.
Richard Pieris and Company's Arpico retail network has 15 supercenters (hypermarkets) and 33 showrooms mainly spread across the Western Province.

HYDRO POWER PROSPECTS BRIGHT

Independent power producer Vidullanka's prospects remain good despite uncertainties caused by rainfall fluctuations given government commitment to increasing non-renewable power supply.
Vidullanka Group is a small player in the IPP sector, with an effective generation capacity of 7.5 MW from several mini-hydro power plants, contributing 2.5% of the country's power generation via non-conventional renewable energy sources.
Demand for power is expected to grow at about 7% a year between 2013 and 2015 in line with robust economic growth, says RAM Ratings Lanka which has reaffirmed Vidullanka's long- and short-term corporate credit ratings at A- and P2.
"Independent power producers are well positioned to benefit from the demand-supply gap in the short to medium term," the rating agency said.
Although its first power purchase agreement, which accounts for 40% of revenue, is set to end in 2016, government plans to increase supply from non-renewable power sources minimises the risk of its non-renewal.
The company has a subsidiary, Vidul Engineering, engaged in the design and construction of mini-hydro-power plants and project management.

59% Vidullanka Group's operating profit before depreciation, interest and tax margin in 1Q FY March 2014.

Periscope

TEA PRICES HIT NEW HIGH

$3.82/kilo
National tea auction average

Rs530.51/ kilo
Average price for Low Grown teas, the first time teas from any elevation went for an average price in excess of Rs500

Tight supply and increased seasonal demand pushed Colombo tea auction prices to record levels in October in both rupee and US dollar terms.

The total average price for all tea sold at the Colombo auction in October 2013 reached a highest-ever Rs494.88 a kilo, compared with the previous month's total average of Rs475.83.

"Depreciation of the rupee did play its part," brokers Asia Siyaka Commodities said, "but in US dollars too, the figure is also the highest-ever."

The national average in dollar terms was $3.82 a kilo, beating the previous record of $3.78 set in 2009.

In that year there was a global shortage of supply, caused by poor growing conditions in the Southern hemisphere and in Sri Lanka too production was sharply lower.

This year's October national average was boosted by exceptional prices paid for Low Grown teas which sold at Rs530.51 a kilo.

"This is the first time teas from any elevation had sold at an average price in excess of Rs500 per kg," Asia Siyaka Commodities said. The previous record had been Rs494.96 set in September 2013.

The market for High Growns peaked at a highest-ever Rs451.43 in September this year but by October prices declined although the average was yet at a relatively high Rs435.0.

Unfortunately, prices realized from this elevation in many instances did not match the sharp rise in cost of production resulting from loss of crop due to adverse weather. ■

FAST PREMIUM GROWTH AT AMANA TAKAFUL

Amana Takaful (ATL) is small and the only composite takaful or non-conventional insurer in Sri Lanka but its gross written premiums have been growing faster than the industry average and claims ratio is better.

Having debuted in 2002, ATLs composite GWPs grew at a faster compounded annual growth rate (CAGR) of 30.36% over the last three years, compared to the industry rate of 14.69%. General premiums, being the Group's key revenue driver, increased at a CAGR of 32.80%, while life premiums rose 23.24%, according to RAM Ratings Lanka which has assigned Amana Takaful long- and short-term claims-paying ability a rating of BBB- and P3.

ATL is in ninth position in long-term business in terms of gross written premiums and in tenth position in the general insurance segment.

Amana Takaful accounts for only 1.79% of total industry GWPs but RAM Ratings deemed that the Group is somewhat insulated from competition given its sole presence in the takaful business.

"The Group's general takaful underwriting standards are viewed as above average," the rating agency said.

"Conventionally, it has been able to keep its general takaful underwriting standards above industry-average levels. Moreover, we note that the Group's claims ratio in the general takaful business ameliorated to 55.35% as at end-FY Dec 2012, which compared better against industry levels of around 65%, owing to its smaller exposure to motor insurance, which entails higher claims."

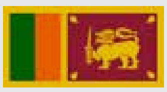
This is mainly due to ATL's Maldivian unit focusing on non-motor policies for which claims remained low.

RAM Ratings Lanka's concerns hinge on the company's inability to reduce policy lapse and surrender rates in its family takaful business.

However, policy lapses are an industry wide phenomenon amid increased cost of living coupled with reduced investment returns.

ATL's weak financial performance in previous years has eroded its capital with cumulative losses rising to Rs442 million as at December 2012. ■

EXPORT STRATEGY SHAKE-UP CALL



32
institutions are tasked with enabling exports, including ministries, government departments, chambers and NGOs

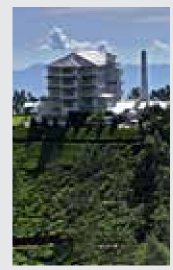
10
Number of exporters who cross US$100 million

3,400
Number of exports

3,300
Number of export products

3
Of the top 40 CSE capitalized companies, only three - Carsons, Hayleys and Colombo Dockyard - have a significant dependence on international income

800
Number of tea exporters



700
Number of tea factories

Sri Lanka's export sector needs a critical review and a shake-up if it is to achieve the government target of $20 billion earnings by 2020, says Hilmy Cader, CEO of MTI Consulting.

The sector today is far too fragmented and disjointed and also lacks an overall vision, he noted.

Considering the number of awards exporters and other corporates are getting, Sri Lanka should be world class, he told a forum on strategizing for exports organised by the Exporters' Association of Sri Lanka.

"Every other day there are awards, but where are the rewards?"

The entire export sector should be ashamed of that fact that if apparel shipments are taken out of total exports, foreign remittances bring in more money than all of the other exports put together, Cader said.

"That comes with a huge social cost."

There are a multitude of institutions responsible for promoting exports but all take a very 'micro-level' view and many have overlapping functions and no one is held accountable.

"Whose neck is on the line if we don't achieve the export targets as a country? Which ministry, which institutions? Because nothing will be achieved if someone is not held accountable."

Furthermore, only a few firms can be considered big enough to have an impact on global markets.

"We have only about 10 exporters who cross $100 million. Today, unless you are doing an ultra-specialized product, you need to have the minimum economies of scale. There is no way you can compete in the global market."

Of the seven export industries that earn over $100 million, four yield almost a billion dollars each - apparel, tea, tourism and ICT.

"By and large we are dependent on tea, rubber, coconut, gems, jewellery and tourism," Cader said. "The only two we have added on in any significant level is apparel and ICT which is picking up pace."

Not enough companies have the hunger for exports like in China and Vietnam, he added.

"Out of the top 40 CSE capitalized companies, only three have a significant dependence on international income - Carsons, Hayleys and Colombo Dockyard," Cader said. "The others are very comfortable with local income."

A more broadminded approach is needed to help Sri Lankan firms to become multinational and to become part the supply chains of other MNCs.

Most export industries are also far too fragmented to be able to achieve the economies of scale needed in global markets as New Zealand's dairy industry has done, with, for example, about 400,000 small holders in the tea industry.

"It is a challenge for us as a country on how we are going to be big and small at the same time. There's no way we can get critical mass or invest because it is fragmented."

Periscope

50%

DEVELOPING COUNTRIES' SHARE OF WORLD FISH TRADE, WHICH CONTRIBUTES MORE TO THEIR NET EARNINGS FROM FOREIGN EXCHANGE THAN MEAT, TEA, BANANAS AND COFFEE COMBINED

2.4%

SRI LANKA'S SHARE OF GLOBAL SHARK CATCH

EVADING THE TAX NET IN FISHERIES

Tax crime is rampant in the fisheries sector, covering a wide range of offences, including the evasion of tax on income, VAT and customs duty and social security fraud, a new OECD report has warned.

The report is relevant to Sri Lanka given the post-war growth of the fisheries sector and the island emerging among the top 20 countries that catch sharks for export of fins, considered a delicacy in some Asian markets.

Taken across all areas of tax, the tax revenue lost to criminal activity in the fisheries sector is likely to be significant. The effect of this tax loss on developing countries may be particularly great, impacting efforts to promote food security, reduce poverty and finance long term development, says the report called 'Evading the Net: Tax Crime in the Fisheries Sector'.

It recommends that tax administrations should assess their country's vulnerabilities to tax crime arising within the fisheries sector and related service providers, and that tax examiners, tax auditors and tax crime investigators have the relevant skills and knowledge to detect and combat tax crime in the sector.

The report gives an example of VAT fraud to highlight the risks of tax crime in the fisheries business, although it does not identify the country involved, where a probe revealed that VAT refunds in excess of US$3 million over two years were fraudulently claimed based on false documentation. This was by an exporter of sharks fin to countries in the Far East which was zero rated for VAT. During a routine audit, tax officials discovered that the amount of sharks fin the company was claiming to export was considerably over-stated as it actually exceeded the entire annual catch of sharks.

Tax officials also found evidence that a number of purchases made by the company were false, and were in fact payments to intermediaries for facilitating the fraud. ■

US PURSUES FATCA TAX DEALS DESPITE GROWING OPPOSITION

The United States has signed nine agreements with foreign governments on its Foreign Account Tax Compliance Act (FATCA), meant to combat tax evasion, and is in talks with over 80 other jurisdictions despite growing opposition to the law which takes effect next year.

FATCA, which comes into operation from July 2014 will require foreign financial institutions (FFIs) to give up information on their US customers to the Internal Revenue Service (IRS) to help clamp down on US tax avoidance.

Those that don't participate will be subject to a 30% penalty withholding tax on US-source income payments - in other words they risk 30% of the funds being withheld as taxes, a steep penalty banks want to avoid.

Foreign governments have to sign intergovernmental agreements (IGAs) with the US to enable their FFIs to comply with FATCA.

So far those who have signed IGAs are United Kingdom, Japan, Switzerland, Denmark, Germany, Ireland, Mexico, Norway and Spain. The US Treasury says it has reached 16 'agreements in substance'.

Several hundred thousand financial institutions are expected to register with the IRS in the months ahead, with dozens from more than 150 countries already having started.

FFIs include institutions like banks, brokers, insurance companies, funds, custodians and asset managers.

The controversial law, seen by many non-US financial institutions and governments as intrusive and potentially violating local data privacy laws, while costing heavily to implement, has now been postponed twice.

The US has said it is an initiative to prevent tax evasion of around $10 billion over the next 10 years.

Critics of FATCA say it shifts the responsibility of reporting on assets owned by American citizens outside of the US to the financial institutions where accounts or assets are held, significantly increasing the burden on the latter who must identify, document and report on US persons.

It has led to a backlash from both foreign governments and US citizens. Some governments like China, Germany and France are asking for reciprocal action, demanding that FFIs of the US, the world's biggest tax haven, should report on assets held by their citizens as well.

Ordinary Americans living overseas, like teachers and software programmers, say they are being persecuted like smugglers and drug dealers and that foreign banks are refusing to deal with them and asking them to close accounts. ■

INTERNATIONAL

80
Number of jurisdictions the US is in talks with

9
foreign governments have signed intergovernmental agreements with the US

REVISED FATCA IMPLEMENTATION TIMELINE

DECEMBER 31, 2013 -
Draft FFI agreement to be finalized

APRIL 25, 2014 -
Last date for FFIs to register on FFI Registration Portal to appear on IRS List. Each PFFI and registered deemed-compliant FFI would be assigned a global intermediary identification number (GIIN), used for reporting purposes and to identify the FFI's status to withholding agent

JUNE 2, 2014 -
IRS to publish first IRS FFI List and update on monthly basis

JUNE 30, 2014 -
Effective date of FFI Agreements if signed by June 30, 2014. Withholding agents generally will be required to begin withholding on withholdable payments made after June 30, 2014, to payees that are FFIs or NFFEs (nonfinancial foreign entities)

JULY 1, 2014 -
Requirement to implement new account opening procedures for US withholding agents and Participating FFIs

DECEMBER 31, 2014 -
Date when withholding agent, Participating FFIs, and Registered Deemed-Compliant FFIs must document payees that are prima facie FFIs

MARCH 31, 2015 -
Deadline for First Report of a PFFI with respect to US Accounts. Treasury and the IRS intend to modify these rules to require reporting on March 31, 2015, only with respect to the 2014 calendar year

US$8 BN
FATCA'S ANNUAL COSTS OF COMPLIANCE

COSTLY LAW

Concerns about FATCA are not only over the erosion of privacy but also the huge burden it places on businesses.

Most countries already have tax information exchange agreements with each other.
But FATCA's costs of compliance have been estimated at US$8 billion annually, and $1-2 billion in the UK alone.

This is against an estimated tax revenue increase of only $792 million annually according to the United States Congress Joint Committee on Taxation.
That's seen as a big price to pay for a little extra revenue on a voluntary tax. ■

LANKANS ALSO AFFECTED

BANKER'S ASSOCIATION ASKS US CITIZENS TO REGISTER

Even though Sri Lanka has not yet signed an agreement with the US, the Sri Lanka Banker's Association has asked for the voluntary 'registration' of US persons with their banks to comply with FATCA in a notice published in June.

It noted that FATCA is "extra-territorial" by design and requires "US Persons" to report their financial assets held overseas and Foreign Financial Institutions to report to the US Internal Revenue Service about their American clients.

Observers say many of the affected individuals are also Sri Lankan citizens, living in Sri Lanka, and under the protection of their own laws.

Under FATCA, a "US Person" includes US citizens, lawful residents of the US (including green card holders), people residing in the US or who spend a certain number of days there each year, US corporations, estates and trusts, any entity with links or ownership to US or to US territories and non-US entities that have at least one "US Person" as a "substantial beneficial owner." ■

By
Shamindra Kulamannage

Competition and not coddling

It's now Sri Lanka's official policy to bolster state enterprises. This will pose a number of budget challenges over the short term if these state businesses continue to be unprofitable

It's not unusual that government expenditure is high in countries at the same stage of development as Sri Lanka now finds itself at. A significant portion of the population may not be able to afford good healthcare and education, both crucial for good development. It's also not unusual that a country only now emerging in to lower middle income status should have a giant infrastructure deficit. Infrastructure is crucial to attract new investment and raise the productivity of existing ones.

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

As an investor in infrastructure and provider of healthcare and education, the Sri Lankan government also plays a role. Its critics of course have been arguing recently that it does not spend enough on education for instance. They want government spending on education increased to levels close to 6% from its current equivalent of 2% of gross domestic product (GDP). Although healthcare professionals haven't been demanding similar increases to spending as have teachers, the government outlay on health is similarly low.

For a country that runs a consistently high budget deficit, a lack of resources for crucial social spending is indicative of a massive resource misallocation. Those resources that could have improved the grades of school kids or provided critical treatment at a rural hospital are perhaps ending up elsewhere?

That spending ends up with unprofitable state enterprises.

In 2012 unprofitable state enterprises gobbled up Rs211 billion off the government budget the equivalent of 2.8% of GDP. The losses at state ventures were primarily due to selling electricity, fuel and air tickets below cost. Less controversially, bus tickets, train tickets and postal services were also sold at below cost.

The notion that politicians are now reviving that greater state involvement in businesses where private sector is willing to invest in, will create more jobs and economic growth is a dangerous one. Jobs and growth are worries alright and government investment seeking targeted outcomes in education, healthcare and infrastructure can create jobs and growth. However the drain that state businesses like the CEB, CPC and SriLankan airlines pile on the government budget don't optimize growth or job creation.

In 2012 losses at state enterprises gobbled up nearly 21% of the government's revenue and accounted for 18.3% of the budget deficit. Already the government has indicated the budget deficit for 2013 will be higher than forecast at the beginning of the year. Sri Lanka has over 300 state owned enterprises (SOEs), many of them not pulling their weight.

State enterprises are also generally inefficient, because their managers are unlikely to lose their jobs due to poor performance, poor productivity, inability to mobilize investment, frequent labor unrest and dependence on government cash transfers and guarantees to stay in business.

This resource misallocation to keep afloat loss making state ventures has two short term impacts on the government.

As Sri Lanka has joined the middle income ranks, it is now forced to access international markets to borrow at market rates.

The first of those impacts on the governments is that it defeats the need to create more jobs and higher economic growth. These are laudable aims useful to win the next election and create long term wealth for citizens. Competition will do far more for creating jobs than coddling inefficient SOEs.

As Sri Lanka has joined the middle income ranks, it is now forced to access international markets to borrow at market rates. Its ability to repay these loans improves when the monies are deployed in to productive work rather than for keeping afloat leviathans. If unwise resource allocations weaken Sri Lanka's ability to repay loans, international markets will impose brutal conditions the next time it wishes to finance a budget deficit. Since its first dollar bond was raised the risk premium for the country has risen steadily.

These factors should concern politicians who like to be seen handing out appointment letters to new batches of nurses and teachers. Their ability to continue to do that rests on fixing the budget resource misallocation.

The state's share of the economy has been declining slowly over the last few years making the rising losses at SOEs even more glaring. Instead of continuing to coddle inefficient SOEs, the government could adopt a more sensible approach to generate faster economic growth and more jobs. It can firstly do this by focusing on improving the investment climate for the private sector. Less red tape and bureaucracy, simpler tax regimes and the rule of law can achieve this.

Secondly it can build infrastructure that fosters more private sector investment and supports innovation and thirdly rather than tweaking public policy to buttress failing SOEs, it should encourage winners to emerge by themselves, from among SOEs or the private sector. Ultimately competition will do far more for economic growth and job creation than will coddling. ■

By
Mark Hager

Obamacare and Alternatives

U.S. health care costs almost twice the average for developed countries. Reasons for this are however widely debatable

No more Americans dying because they cannot afford expensive but necessary health care. Health care insurance reform is President Obama's signal claim to fame. A law enacted by his fellow Democrats with majorities in Congress (prior to Republican re-capture of the House of Representatives in the 2010 elections) tries to ensure that every American enjoys insurance to cover the skyrocketing costs of U.S. health care. Citizens must buy coverage (mandatory purchase) and underwriters must sell it (mandatory issuance) at rates disregarding whether someone suffers from a 'preexisting medical condition' that makes covering her a losing bet from a profit-seeking standpoint.

> Insurers have predictably responded to forced coverage of poor risks by **raising overall rates,** thus exaccerbating health care unaffordability

Insurers have predictably responded to forced coverage of poor risks by raising overall rates, thus exaccerbating health care unaffordability. Democrats contend that costs will nevertheless soon begin coming down due to reforms in health care delivery also mandated by the new law, but this remains to be seen. Meanwhile, Republican critics question whether the reform's trade-off–universal coverage, but higher insurance costs–is wise. They also point with alarm at various government subsidies the reform law confers on citizens

Perspective

unable to afford mandated coverage. Such subsidies, they insist, add further red ink to already-massive government budget deficits. Future tax hikes to cover the costs will choke off economic growth. Moreover, they argue, most of those without health insurance in the pre-reform world were healthy enough and in any case broadened coverage could better be achieved by other means.

U.S. health care costs almost twice the average for developed countries. Reasons for this are widely debatable, but one consequence is clear: Americans need insurance to defray ruinous costs. That insurance is itself expensive because the underlying costs are so high. Many cannot afford it. Two urgent priorities emerge: extending coverage to the uninsured and bringing health care costs down. Controversy swirls on how best to pursue and balance these objectives.

Obamacare steers a middle course between government-centered and market-centered reform. Government-centered schemes, modelled perhaps on Canada, would replace private health insurance entirely by tax-funded public insurance. Insurance would be there for all and costs would be contained--somehow or other. Market-centered schemes favored by Republicans would seek cost reductions through enhanced underwriter competition and smarter consumer choice in utilizing health care. The problems of those still facing still-unaffordable insurance for still-expensive care would then be solved--somehow or other. Shunning these polar alternatives, Obama's plan retains the private insurance market but transfigures it with mandates that underwriters must sell and citizens must buy. Cost containment will occur, again, somehow or other.

Under Obamacare, citizens face coercive tax penalties if they fail to buy coverage. Mandatory purchase forestalls a spiral of escalating premiums touched off by requiring underwriters to cover sick and high-risk consumers.

Profits in private underwriting come from cleverness in risk selection and premium pricing. Premiums must be high enough to cover insured risks yet low enough to attract consumers deciding whether to buy coverage. If underwriters must cover everyone regardless how sick they may already or potentially be, they will raise premiums to cover increased outlays. Left to their own devices, young and healthy people often elect to forego insurance and spend their money instead on better computers, grander vacations or whatnot. Without their premiums to defray outlays, underwriters need to charge high rates from those they do cover. As rates go up, more and more people who see themselves as relatively low-risk will forego coverage, thus forcing rates ever higher, thereby fueling the tendency to avoid coverage, pushing rates up even further.

Obamacare steers a middle course between government-centered and market-centered reform.

Under mandatory coverage, when the young and healthy become old and sickly, they can simply walk into an insurance office and demand a policy. Having caused high premiums, they have evaded paying them until they could draw benefits themselves. This 'free rider' logic dismantles affordable insurance. In the end, only the sick are buying coverage--at rates so steep as to defeat the whole purpose of insurance. Obama's reform forestalls this insurance market 'death spiral' through mandatory purchase: no exemption for youth or health.

Mandatory purchase struck some critics as unconstitutional. They took their argument to the Supreme Court, which disagreed. They then campaigned against Obamacare in the 2012 congressional and presidential races, but voters declined to repudiate Obamacare by electing Republicans to repeal it.

But concerns about growth-stifling tax hikes needed to subsidize coverage for the poor will not go away, nor will concerns that mandatory issuance will make insurance more expensive than ever. As Obamacare's middle-way reform unfolds, we should maintain discussion of its government-centered and market-centered alternatives.

By
Padraig Colman

Robbing tax payers to prop up bankrupt banks

The way in which Irish banks went bust with the bursting of the country's property bubble throws the spotlight on reckless lending that can inflate asset prices

There was an intriguing item in the *Irish Times* the other day. It was arresting because of the striking image of a painting by Roscommon-born artist Roderic O'Conor (1860-1940) - *Red Rocks, Brittany*. The subject matter of the article was interesting. It seems that the value of the painting has plummeted from £250,000 to £120,000. Two paintings by Louis le Brocquy, a Dublin artist who died last year, aged 95, *Woman*, an oil-on-canvas dated 1958, and *Tinker Breaks Whitethorn*, a watercolour, both now have a top estimate of just £30,000 compared with £60,000 in 2011.

Another article about the relationship between commerce and art, culture as currency, must wait for another day.

The context of this particular *Irish Times* story tells something about the financial state of Ireland today. It was NAMA (National Asset Management Agency) that offered the paintings to Christie's for sale. NAMA, known in Irish as *Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní,* is a body created in late 2009, in response to the financial crisis.

An important component of the Irish meltdown was the property bubble. When I was living in Ireland, from 1998, it puzzled me that so many housing estates were being built when the population was below four million. Sri Lanka is the same size with a population of 20 million. The Irish property market did indeed collapse, leaving all the major Irish banks with bad loans on their books. There are ghost estates all over Ireland. Some property developers had the grace to commit suicide.

The major villain of the piece was the Anglo-Irish Bank, but older, more staid institutions, went crazy too. AIB and Bank of Ireland doubled their total loan books in three years. Bank of Ireland took more than a century to build a loan book of €63 billion and then, in three years from 2003 to 2006, it doubled it.

If the banks had admitted on their balance sheets the true value of these loans, they would no longer have been able meet their statutory capital requirements. The banks needed to raise further capital but their stock was too unattractive for a general share issuance to be viable. They avoided this little difficulty by lying through their collective dentures.

The plan for NAMA was that the new agency would bring a better economic solution to the banking crisis than nationalising the banks. The Fianna Fáil government established NAMA on a statutory basis, as a separate body corporate with its own Board appointed by the Minister for Finance. NAMA would arrange and supervise the identification and valuation of property-backed loans on the books of qualifying financial institutions in Ireland. However, it would delegate the purchase and management of these loans to a separately created Special Purpose Vehicle.

The NAMA website today says: "The Agency has acquired loans (land and development and associated loans) with a nominal value of €74 billion from participating financial institutions. Its objective is to obtain the best achievable financial return for the State on this portfolio over an expected lifetime of up to ten years."

Critics said the government was gambling with taxpayers' money without asking the banks, bondholders and institutional investors to take their fair share of the pain. Nobel laureate economist Joseph Stiglitz said: "this bank bailout is a simple transfer from taxpayers to bondholders, and it will saddle generations to come. The only thing that might give you solace is that, as chief economist of the World Bank, we see this type of thing happening in banana republics all over the world. Whenever a banking crisis happens, the financial sector uses the turmoil as a mechanism to transfer wealth from the general population to themselves.

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I've been very disappointed to see that it has happened, not only in banana republics, but in advanced industrialised countries."

The guarantee ought to have been in place only for two years but it was extended because the banks could not keep going without State protection. As the losses mounted, the insurance policy itself bankrupted the insurer. Despite robbing the taxpayer to pay for the foolishness of the banks, Ireland still had to beg EU help, which subjected it to the dictates of the Troika. This did not teach humility. In 2013, bank bosses are still scolding politicians and customers, despite the fact that none of them would be still in jobs were it not for taxpayers' money. Every single Irish bank was bankrupt in 2008.

United Left TD (Irish MP) Joan Collins took a case to court in October 2013. In her action, Ms Collins claims the promissory note payments, proposed as part of the €31 billion recapitalisation announced by the Minister for Finance in 2010 of the former Anglo Irish Bank, Irish Nationwide and the Educational Building Society, are unlawful and unconstitutional. She claims the promissory note payments are a profound attack on the democratic nature of the State because they amount to an appropriation of public monies not authorised, as required by the Constitution, by a vote of Dáil Eireann (lower house of the Irish parliament).

In May 2013, the World Economic Forum published its global competitiveness index for 2013-2014. Switzerland is top of the league. Overall, Ireland is at 28 (Sri Lanka at 65). Under the indicator of "Soundness of Banks", Ireland ranks 141st out of 144. By far the biggest problem Irish businesses face as the economy struggles to recover is access to financing. The banks are scared or reluctant to lend to businesses because they have squandered their capital.

Back to those paintings: they once belonged to Derek M Quinlan, an Irish businessman who was prominent in real estate investment and development. In 2004, Quinlan headed an investment syndicate that bought The Savoy Group for £750 million, giving it control of landmark London hotels including Claridges, The Connaught Hotel and The Savoy Hotel. Quinlan outbid competing buyers, including Saudi Prince Alwaleed Bin Talal. Some months later, Quinlan sold The Savoy Hotel to the Saudi prince for £250 million, while retaining the other hotels in the group.

141st

Ireland's rank under the "Soundness of Banks" indicator out of 144 countries in the World Economic Forum's global competitiveness index for 2013-14

€74 billion

Value of bad loans taken over by state agency NAMA from top developers after Ireland's property bubble burst

Mr Quinlan once said: "When I started in this business, I quickly understood how the mathematics work, that you get as much leverage as possible, [and buy property] with a good covenant and a good location." Quinlan's business model was indeed predicated on acquisition using maximum leverage. With the crisis, his Irish property assets in particular suffered precipitous declines in value.

In 2009, Quinlan resigned and moved to Switzerland to concentrate on negotiations with lenders to restructure his personal debts of €600 million. He personally owed Anglo-Irish Bank alone €300 million. In May 2010, Royal Bank of Scotland moved to repossess his yacht. In April 2011, a receiver was appointed on behalf of NAMA to take charge of a number of properties owned by Quinlan, after he had failed to repay loans to the agency totalling hundreds of millions of Euros.

Veteran Irish broadcaster Gay Byrne has said that he has "no hard feelings" over losses he made from boom-time property investments with Quinlan. The pair recently had lunch together at the Lord Edward in Dublin (many is the trouser-busting meal I have had there). Mr Byrne revealed that Mr Quinlan invited him to lunch to say goodbye as Quinlan is making another move, this time to the United Arab Emirates. Who paid? Did the waiter get a good tip?

Critics bemoan the inadequacy of *Rialtóir Airgeadais,* the Irish Financial Regulator. In 2005, the Regulator was criticised for publishing a report which read like a promotional brochure for the money-lending industry. It included a section devoted to arguing why moneylenders should be allowed to charge as much as they do. (188%-plus collection fees of up to 11%). In April 2005, The *New York Times* referred to Ireland as the "Wild West of European finance". Transcripts of phone calls by the Financial Regulator's senior staff suggest they gave tacit approval to the illicit movement of deposits involving Irish Life and Permanent plc. The Financial Regulator hired Ernst & Young to advise on the €440 billion bank guarantee scheme in January 2009, despite the fact that the company's audits of Anglo Irish Bank were under investigation.

Before he became a property mogul, Quinlan was a tax inspector with the government Revenue Commissioners - gamekeeper turned poacher? ■

Advantage

first Disrupt, *then* Grow Up

BY SHAMINDRA KULAMANNAGE

Reeza Zarook was burning an online retail trail when Dialog invested in the firm. It's since had to grow up fast.

Incessant change is a constant in any successful business but one that startups, growing at lightning speed, must be particularly apt at. Online retailer and daily deals site Anything.lk's Chief Executive Reeza Zarook was growing the business nimbly when he and other promoters decided to accept telco Dialog as a shareholder merging a number of ventures in to a firm called Digital Commerce Lanka (DCL).

Anything.lk basically copied what appears to have been a nifty idea rolled out large scale by now NASDAQ listed US firm groupon.com. Online coupon firms offer potential customers discounts on anything from donuts to yoga lessons. For the

Anything.lk and its retail reincarnation the Wowmall.lk don't keep stock and instead work on consignment, and so are able to minimize costs and pass it on

Reeza Zarook

merchants who offer products or services it's an opportunity to attract new customers who they hope will return after a satisfying first experience.

Aping groupon.com was Anything's first step. But now the one and a half year old venture is remarkably complex. Look closely at the company's online façades www.anything.lk and www.wowmall.lk and it starts becoming apparent the firm is now more than an online coupon business; it's also retailer, a holiday travel firm and sells tickets for and manages events. "We are not the company that we started off to be. We started being a daily deals buying site and now we are Sri Lanka's premier e-commerce site," says Reeza who estimates retail is worth Rs.6 billion here and the one with perhaps the greatest potential. On top of these business lines the firm in 2013 added two more, a fresh grocery produce sales business and a business network section listing products from other retailers.

Amazon Fresh, delivering groceries in the US, started operations a month after wowmall.lk's grocery business which was a fantastic validation of the business model says Zarook. DCL's business network section is a hybrid of Shopify.com, Rakuten.com and the Groupon Partner Network.

Each business line is a proven ecommerce success internationally. For daily discount deals there is groupon.com, for retail its amazon.com, travel is covered by expedia.com and many other similar outfits and events by ones like ticketmaster.com. Anything.lk is part owned by Rebate Networks, which also owns a number of other online discount coupon operations worldwide some of which are also diversifying within the ecommerce sphere.

Zarook learned why the promoters - with experience running virtual coupon clipping ventures elsewhere - thought the straightjacket of a business plan was a constraint during its launch phase. In six months it was apparent over half the daily deals offered on the web were for retail products like cameras and phones. But merchants had thin margins on these products so they couldn't offer deep discounts the likes of which service establishments can. "We thought; hang on, a lot of these merchants have products that are not unique to them and what if we source these products ourselves. We can give much better offers". And so they did. Six months after the website's launch anything.lk's first major strategic shift; setting up an online retail store happened.

However launching new ventures isn't as straightforward, now that Dialog is a shareholder. "Dialog has helped us grow up faster than we would have done otherwise," admits Zarook, who says the firm's entry as a shareholder in December 2012 changed three things.

Firstly it forced the new entity Digital Commerce Lanka, which included Anything.lk, and e-commerce businesses of the Dialog Group, to start planning for the long term, something that had not been done at the firm previously. "We have to put down what we will do this year, what we want to do next year and what we think we may want to do in the third year", explains Zarook. "All of this, as a practice, was difficult for us to do; not difficult conceptually but now we've got to think about these."

Anything.lk didn't follow a detailed business plan when they started. But now it has to deliver numbers and qualitative KPI's in new businesses and business verticals. "That's been a humbling exercise," admits Zarook, who says a culture of diving in to new projects without much detailed analysis prevailed before.

The greatest buzz at DCL is about challenging the island's largest consumer electronics retailers like Singer, Softlogic and Sinhagiri. Anything.lk and its retail reincarnation the Wowmall.lk don't keep stock and instead work on consignment, and so are able to minimize costs and pass it on. The retail sales of its own and partners stock now accounts for 55% of the top line, whereas daily coupon discounts account for at 25% of the top line, down from a share of 40% 15 months ago.

Although most of the inventory it carries on wowmall.lk is its own, they are usually supplied by partners who have imported on the firm's behalf. "We don't stock anything, we are happy to pay more for the warehousing costs, the holding costs and the importation costs," says Zarook but does not rule out direct imports in the future.

History is replete with examples of innovative, dynamic upstarts that pulled the rug from under the old guard. It is not that firms don't see the new threat posed by technology and emerging trends, but they find it difficult to divert resources towards the opportunity. Firms like Amazon, without the costly countrywide bricks and mortar presence achieved this at the cusp of a new business cycle a decade ago, when technology altered the competitive landscape.

Growth usually occurs in spurts because increased competition and the resulting declining profits will inspire some entrepreneurs to innovate. This is the theory of the business cycle. Often market dominating incumbents become lazy and successful innovation as a result comes from new entrants. The resulting 'creative destruction' changes industries. A wave of creative destruction in retail swept through the US and Europe when internet access became ubiquitous a decade ago. Retail bookshop chains have downsized and many family run corner stores are shuttering under pressure from low margin, high volume ventures like Amazon. The online retailer didn't have instant success: it struggled in the red for six years but its Chief Executive Jeff Bezos continued to see opportunity when his critics only saw problems.

Creative destruction is a critical part of economic dynamism and entrepreneurs are at the heart of the process. Their impatient, convention spurning attitude and acceptance that risk comes with success, sets them apart from chief executives looking for incremental advances as opposed to leaps.

DCL has the potential to cause a wave of creative destruction in Sri Lanka a decade on from when the first ecommerce waves swept across US and Europe. However it is unlikely that electronic retailers here will react in wild panic. Ecommerce may only chip away at their market share over time. At 12% internet penetration and perhaps five hundred thousand people having a credit card, ecommerce is still handicapped in Sri Lanka.

We have to put down what we will do this year, what we want to do next year and what we think we may want to do in the third year–

Reeza Zarook

But in true entrepreneurial style DCL takes challenges posed by bottlenecks in its stride. Its deep partnership with Dialog - which has half the mobile market share in Sri Lanka - made it possible for customers who don't have credit cards to charge purchases to their mobile account.

Clad in blue jeans and casual cotton shirt, the man arguably building the most exciting online business in the country, presents an impassioned case for why Anything.lk, DCL's daily deals site, shouldn't be compared with its US nemesis groupon.com. "What makes us great is that we understand Sri Lankans," declares Zarook who dismisses the notion his business can go global. Instead the site aspires to become Sri Lanka's largest ecommerce venture.

Groupon.com, which has local sites in many big cities worldwide had a tumultuous IPO reception. Groupon's straightjacket approach to diverse Asian cultures and occasional insensitivity to the capacity of small businesses to cater to explosive demand has resulted in floundering regional ventures and bad reputations. It famously once sold 8000 discount coupons for a small cup cake business that went bust trying to cater to the overwhelming demand.

In the heady times preceding the dot com bust up, ecommerce sites had global ambitions, some based on the simplistic mantra that products can be pushed with a website as a storefront. Investors and investment bankers apprehensive about appearing like numbskulls to miss the next great wave and the 'I told you so' chagrin from clients, piled on to internet startups. Some even took the much bolder step

"I didn't want to do this as a consultancy job and I told them 'I want in, I want a share of the company,' I didn't want to do this and hand it over to somebody,"– *Reeza Zarook*

by quitting their jobs to start internet firms.

In 1998, around the time investors were hallucinating about internet millions, Reeza Zarook, a London based investment banker moved to Sri Lanka, the land of his parents' birth, seeking contentment. His friends from the City however were certain he was having a meltdown. Tranquility and contentment he soon realized was the perfect mask for a whole lot of other issues like lethargy, lack of ambition, not respecting deadlines and government paralysis. Understanding these Sri Lankan idiosyncrasies has helped Anything.lk adapt its business to suit local challenges.

Critics of the groupon.com model argue it is a giant ponzi scheme dependent on aggressive marketing and sales which can sputter when the novelty fades. Zarook estimates there is a 6,000 merchant network of which they may perhaps tap half. That's around 10 merchants for every week day. Since Anything launches only a limited number of deals daily they can make fresh offers for two years before they have to go back to the same merchants. The firm's merchandisers also source products on from importers which are offered up in the site.

The firm's promoters already own and manage similar businesses overseas. "We have access to the best practices globally. They have so much knowledge to offer and they are so involved." When first approached by the promoters, Zarook - embarrassingly he claims - was ignorant about the groupon.com model. Three months later, following a visit to Rebate Networks partnered Thai venture www.ensogo.com which has become a game changer in that country, he was convinced. "Working the business model it makes absolute sense, and I went back to Nick and said, this is doable," recalls Reeza of his conversation with Nick Clayton, a promoter of the Sri Lankan venture who was keen to attract Zarook as Chief Executive.

"But I didn't want to do this as a consultancy job and I told them 'I want in, I want a share of the company,' I didn't want to do this and hand it over to somebody," recalls Zarook. Others also invested including Thilan Wijesinghe, Mike Brinsford an investor who has worked in Asia including Sri Lanka, promoters of Thai online coupon firm ensogo.com, and Rebate Networks, which has stakes in 26 other similar ventures worldwide. A couple of founding staff members of the Sri Lankan venture, in addition to Reeza Zarook, also has small shareholdings.

Dialog invested in Anything.lk by purchasing a 26% stake in DCL, a joint venture firm, for $1.59 million. Dialog is represented at the DCL board by Chief Executive Hans Wijayasuriya and Anthony Rodrigo who have brought with them the discipline of planning and also better processes.

The second change is that the firm is now more process driven. "With Dialog, if you really believe you want to do this, we have to provide more justification, more analysis," Zarook outlines the general expectation "Then we are able to throw a whole lot more money at it". He says. "These are all good things that we should have been doing from day one but generally most startups don't."

It doesn't mean the cash Dialog invested in the business, when existing shareholders agreed to dilute their interest, is being blown on expansion.

In fact Dialog's entry as a shareholder has led to greater introspection and measured expansion. From a peak of 128 the headcount at the firm has declined to 109. Often requests for new staff are turned down and those leaving are not always replaced. That's the third change that Dialog has influenced in the firm, a focus on growing individual contributions.

In the first 18 months Reeza confesses the focus was entirely on growing the company,

Anything.lk in Numbers

750,000 unique visitors to websites every month

400 customers visits to its store daily

212,000 Facebook likes

Its allocation of Russell Peters tickets in **17 hours**

"we just threw people at all our challenges. Now we are looking at growing each individual's contribution." On the top floor of DCL's open plan office is a white board which includes the top three KPI's (Key Performance Indicators) of every team member. "There is complete transparency; everybody knows everybody else's KPIs. This is Dialog's influence."

It's Reeza Zarook's initiative that resulted in Dialog, a unit of Malaysia's $18 billion Axiata, agreeing to invest in the joint venture DCL. Zarook approached Dialog to invest in the telco's iBuy unit (an e-mall) which wasn't getting the type of traction he thought Anything.lk could bring to that business. Dialog chief executive Hans Wijayasuriya agreed that Anything.lk could acquire the unit but also offered to invest in a joint venture. "We are a company who wants to grow and for that, we need money," Zarook said of the partnership at the time.

He says the Dialog partnership has paid off tremendously. "I engage with and discuss with shareholders everyday of the week. Our future is with Dialog, they are opening many opportunities for us because of who they are and their credibility." Nurturing this strategic relationship is a top priority for Zarook. "They (Dialog) may not know how to run an e-Commerce platform but they know how to attract the mass market".

DCL's success hinges on being able to scale its business beyond the elite and early tech adopters, something Dialog has managed already as a telco. Anything's and its new joint venture DCL's growth is already proving to be more than a mere spark. Its business is a nifty idea, but not a groundbreaking one. The differentiator is its grand vision and ability to out strategise and out implement against competitors. Dialog's equity partnership has now brought new disciplines of planning, processes and productivity to this culture. Few start-ups have the combination of the quality of leadership, the ability to deliver on a vision and the cash that DCL now has. More importantly the firm is undeterred by stuffy convention and the odds of ecommerce success in a country where internet penetration is 12% and coolly confident about turning the market upside-down.

The future of businesses are changing Reeza says. Ones that are online today are 12 to 18 months away from reaping the full benefits. "We are going to be a big part of that story."

We have access to the best practices globally. They have so much knowledge to offer and they are so involved.

DARREL SCOTT

Interview

Financial reporting for small companies

BY ROHAN GUNASEKERA

Small companies outnumber big ones by a large margin the world over and require simpler accounting rules commensurate with their size and sophistication. The globally accepted International Financial Reporting Standards (IFRS) have a separate set of rules for small and medium enterprises called IFRS for SMEs. In this interview, Darrel Scott, Board Member of the standard-setting body, the International Accounting Standards Board, explains the accounting rules for small businesses. Scott, who visited Colombo for a series of training sessions, is also Chairman of the SME Implementation Group, and formerly CFO of the FirstRand Banking Group, one of the largest financial institutions in South Africa and a member of the IASB's International Financial Reporting Interpretations Committee.

Why is there a need for a separate set of IFRS standards for SMEs?

When the Board set about preparing full IFRS it was with the idea that there were companies that were big enough and had the resources and had sufficient distance from their shareholders that they needed to be able to report detailed information. They needed to have the ability to present a lot of comprehensive and complex information. Ninety nine percent of the companies in the world are small companies who live very closely to their shareholders, who have a very close relationship with their other stakeholders like staff and creditors. When we thought about it from the Board perspective, we thought it was necessary to have something that worked for small companies too that helped them from a resource perspective, that they didn't need to have the huge technical skills required for full IFRS. So the idea behind IFRS for SMEs is something that's available for the smaller companies without consuming too much of their resources to produce the simple accounts that they need in their environment. There's a difference between small companies and big companies and financial reporting needs to reflect that.

Can you explain what sort of companies are eligible to use IFRS for SMEs and what the benefits are?

The range starts at the bottom end, if you like. If you need to prepare financial statements you would then qualify for IFRS for SMEs. That's the starting point. But at the top end of the scale you need to be a company that does not have public accountability. Public accountability means a company that has outside shareholders, has listed shareholders or has outside debt holders who don't have a direct relationship with the company itself, or companies like banks that take people's money and invest their money. So banks, insurance companies and any big company that has public accountability are excluded. But all other companies can use IFRS for SMEs. Generally speaking, if you look around the world, many, many companies have done it. So it's obviously something that works for companies in that space.

The advantage of it is having a common framework that's used across the world. Banks, when they come to lend to companies, understand the system they are using, they understand the results. IFRS for SMEs is an accounting language and if SMEs are using a common language it means banks understand it, if they want to sell goods overseas and they need to get credit lines from overseas, the overseas companies they are dealing with understand IFRS for SMEs. If they are operating within a local environment, the people within the local environment, the other companies they deal with, the banks they deal with, all understand what their accounts are. The reality is whenever you are dealing with somebody in a business sense, you need to understand how well-off that particular company is, what their creditworthiness is. IFRS for SMEs provides that common language for everybody doing it.

80-90%

of companies are small and medium-sized enterprises

Small enterprises employee around

35%

of the formal labour force

Sri Lanka implemented IFRS in January 2012. From the discussions you've had here could you provide a sense of how effectively the changeover has been implemented?

I think the changeover, from the people I've been talking to, has actually gone very well. The Sri Lankan companies that went through the transition process had to spend a lot of time, they had to put in a lot of effort. The transition is quite a big deal. But I think the Institute here assisted in a lot of ways. The audit profession seemed well aware of what was coming and helped facilitate the change. From everybody I've spoken to it sounds as if it has gone off very well.

It doesn't stop there, though. Because what happens when you make a change this big, is you put in a lot of sticky tape, a lot of plasters, you're trying to change a lot of things very quickly. So sometimes you're putting temporary changes in order to get it done. The big job now that happens in the next couple of years is to settle those changes in. To get the systems up to date, to get peoples' understanding. The training courses that we do here become very important because the Institute itself will continue with those training programs and that training will help bring people up to speed, get them up to skill. The first two or three years - if you implement something like IFRS - you're constantly learning about it, you're constantly getting better and better at doing it. And obviously IFRS for SMEs is the same thing. It will be a learning curve.

How effectively have the regulators adapted to this change?

Some of the people that we've been speaking to are from Inland Revenue, which in fact has attended some of our sessions. For them the change is quite big because the numbers that they will see coming in are going to now be a little bit different. There's going to be changes to the process. I've been very impressed with the fact that they've had people at these courses. They've been making the effort to understand why and how the numbers are actually changing, how the difference is actually coming through to them. From a regulatory perspective I think that the IFRS for SMEs operate in a less regulated environment. It's probably more the banks and insurance companies that have had to deal with regulators in a big way. But certainly my understanding is that even there it has worked very well.

Are the tax authorities as well prepared as they ought to be?

It's difficult for me to tell on the face of it. I've been impressed with people from Inland Revenue that I've met. I've been impressed with the types of questions that I've heard from them. Those questions suggest to me that they are aware at least of the issues. It would be very difficult for me to evaluate how they've actually prepared and how the exercise has gone.

What sort of training is needed by SMEs to cope with IFRS?

That's really important because the training is fairly significant, not in terms of time but in terms of understanding. IFRS for SMEs and full IFRS are both on the old IAS standards - the International Accounting Standards - and Sri Lanka has used international accounting standards for a long time. So the basic awareness is there, people understand all the basic issues and they can work with them. The problem is that IFRS for SMEs is a little bit different. And that means you have to understand what those little bits are. Sometimes it can be easier just learning something from scratch because you know it's completely different. When you know something and you're just trying to learn a few new things on the outside, it's quite hard to learn what those new things are. The advantage of that is you don't need to go on a two-year training course to learn. But what you do need is a lot of the two- or three-day work sessions that help people just pick up what those differences are, focus on some of the specific areas and help people concentrate on the way those are.

Again, the people that I've met over the last couple of days, I've been very impressed with the level of knowledge. So it seems to be that a lot of the training has already happened. People have got that awareness.

What are the main differences between IFRS for SMEs and full IFRS?

The main difference between the two is that full IFRS has a lot more choices. So it allows you to choose a lot more different options. What that does is, it adds a lot of complexity. It also has a lot more disclosure. You'll see financial statements under full IFRS will be a lot thicker. It deals with some things that we don't deal with in IFRS for SMEs like complicated hedging. So you have to assume that if you want to do that you have to take full IFRS on. So, broadly, IFRS for SMEs is much simpler, much less detailed, means much less disclosure and is much more principle-based. So you look at the underlying transaction, you make a decision without having to worry about rules. Full IFRS has much more of each of those but it's because of those additional choices, because you're assuming more complex companies and because you've got a broader base of shareholders you need to report to. IFRS for SMEs should be significantly less costly and I really mean in a very big way - a matter of a few percentage of the total cost for full IFRS.

How would IFRS for SMEs affect users of their financial statements like banks? Do they require additional disclosures?

Certainly there are some additional disclosures that banks will sometimes ask for. I went through this experience myself in South Africa. Initially there's a little bit of a learning curve, in the same way that I mentioned the tax/ revenue authorities earlier. So banks need to learn to understand what the differences are so they know what they are looking for. It depends very much then on the kind of activity that banks are involved in so, if a bank is lending against a property, it has a much greater interest in, for example, the fair value of the property than we would have from an accounting perspective. So you would account for the property at cost, the bank would like to know the fair value. From time to time the bank also requires additional information on things like cash flows. But we think that IFRS for SMEs as it stands is the best starting point. And things like fair values you're allowed to disclose in addition if you want to. Many of these SMEs are more aware and, for example, in South Africa have chosen to disclose that information because they know the bank looks for it. And it's an extra line in their financial statements. So it's not significantly more. At least from the perspective of the banks, they always know they are starting from the same base and it's just the one or two add-ons that they are looking for.

Given the international experience, what lessons have small businesses learned in adopting IFRS that could be useful for Sri Lankan firms?

I think it is important to get the understanding at the initial stage. When you transition on to IFRS for SMEs - and that's companies that have transitioned but there are still companies that need to transition - there are a number of choices you get. Getting those choices right at the beginning makes your life easier for the rest of the process. So I think that transition is really important. Getting the knowledge early is important. After that it is worthwhile to have somebody with the right skills looking at it. I don't think many SMEs need those people full time. So you can get them part time, you can get them from bureaus or whatever. But it's easier to use somebody who has the skills and who is keeping up to date with the changes than trying to do that in-house.

Generally speaking, the only other advice I'll give, coming to workshops like this, staying engaged with the Institute actually help you stay current with changes that are coming and also helps to influence changes. In effect if you think something doesn't work it allows you to have your voice heard. I think that's perhaps the most important thing - it's actually staying engaged, staying current.

During your visit here, what are the main problems you noticed Sri Lankan SMEs face in this transition?

Fair value of property is a big thing. I think because Sri Lanka, again like my home country, South Africa, has got higher inflation than what is the norm in perhaps a European country, where property value keeps going up. IFRS for SMEs says that you record property at the original cost. And that creates a problem for a lot of companies that would prefer to be revalued. So that's certainly an issue I've heard a couple of times while I'm around here and one that I'll take back and consider. In terms of many of the other issues I've heard, I think they are similar to what we hear in the rest of the world - concerns about some of the things people feel a little complex, a requirement for us to make sure that we keep things simple in terms of the process, that we don't be lured into making the more complex answers to many questions.

I heard some concerns about people around transition - they had found that perhaps they would have thought about transition a little bit differently if they had known at transition what they know now. So it's reemphasising my warning about being careful about transition, preparing for it in advance.

3/4

of SMEs are outside of Western Province

Europe has roughly 28 million SMEs, USA about 25 million

What changes have been made in adopting IFRS to suit local conditions and circumstances?

Certainly there have been changes with full IFRS and I think if I have a look at the changes I can understand why they were made. In some cases it was primarily a delay to allow companies to catch up. At the IFRS for SMEs level the only change that the Sri Lankan authorities have made is to who qualifies to use IFRS for SMEs. And what they've done is they've narrowed it down a little bit. They've made it slightly smaller. So where we would have said only companies that are publicly accountable are disqualified from using IFRS for SMEs, the Sri Lankan authorities have looked at it and said that some other companies would also be disqualified. That's perfectly acceptable from our perspective. It simply narrows the scope. But other than that the standard as far as I know is exactly the same as we would have issued it.

Could the discretion given to companies to choose whether to use IFRS for SMEs or full IFRS lead to abuse where companies which ought to use full IFRS might perhaps use IFRS for SMEs?

There's discretion for a company that qualifies to use IFRS for SMEs to be allowed to use full IFRS. But companies can be disqualified from using IFRS for SMEs. So you can't step down. If you qualify to use IFRS you can't use IFRS for SMEs instead. So that limits the abuse. I must say I have seen occasional circumstances where I've picked up a set of financial statements prepared under IFRS for SMEs that I look at and I think this really should have been IFRS and we're trying to change the wording in the standard to see if we can close that down a little bit. The Sri Lankan Institute has already taken action to stop that happening. So they have already tightened it more than we have.

Are there tax implications for SMEs in the different application of IFRS?

Absolutely. I think there are - any time a company changes accounting policies it has the result of changing the income that it presents and that in turn changes the way in which the tax man views that income. So I would think that the dialogue - and that's what I said earlier, that I'm so happy to see the tax authorities attending these sessions - needs to happen between the preparers of the financial statements and the tax authorities so the tax authorities can understand what has changed.

At the end of the day tax law is tax law. And that means you should be paying the same amount of tax at the end of the day no matter what happens. All that needs to happen is that the tax authorities need to now understand what adjustments they need to make in order to continue to get the number that they expect to get.

I certainly understood from the discussions that I've had that there is work being done and I presume from that that work needs to be done. In other words people are still getting an understanding of it. I think dialogue is actually the responsibility of the preparers of financials. Preparers of financials need to be talking to people like the tax authority, making sure the tax authorities understand what's coming because they are the preparers and have a better understanding of what the change is going to be.

Would use of IFRS improve transparency and make it easier for the layman to understand financial statements which often can be daunting for non-professionals?

It's a difficult question. Reviewing financial statements is by its nature a complex thing and financial numbers are complex and convey complex meanings.

I think though by picking a single measure, a single way of interpreting, a single language if you like, what we're hoping is getting that understanding. So a lot of people understand the basics of what an asset is and what a liability is. We've kept that consistent. People understand what income and expenses are. That stays consistent. So I think if you're talking in the broad context then you don't need much more than information that's available. IFRS for SMEs, full IFRS in the basic income statement and balance sheet provide information that people can understand and is useful in doing that. And as the business becomes more complex, so the accounting becomes more complex. And if I think about something like pension accounting, I think there are even qualified accountants who battle to understand what's happening with pension accounting. But I think on the face of it, in the basic sense, IFRS and IFRS for SMEs stick quite closely to a conceptual framework, that conceptual framework explains things like assets and liabilities, income and expenses the way people in the street could understand. It's a common understanding. So, yes, I think it does help.

Why has South Africa taken the lead in this initiative?

South Africa made an early decision to adopt IFRS and that was largely because South Africa was in a position at that stage and is still in a position where we were an emerging market that was a strong developing market. We saw the need to bring in foreign direct investment and we felt that in order to bring in FDI it was really important for us to be talking in the international language of accounting. We felt having South African accounting standards didn't make sense for us at that stage because we wanted people to be able to look at our numbers very easily. And South Africa has got a problem that it is very far away from the rest of the world, so we need to do whatever we can to attract the attention of the international world. So we adopted IFRS first. I think it has worked from a foreign direct investment perspective. It has attracted a lot of attention. It has attracted investment to the country. Because of that we very quickly realised that we had another problem which was the problem that we were requiring all of our companies in the country to comply with full IFRS. And that was just too much for the little companies. So when the Board started to talk about IFRS for SMEs we made the decision to early adopt it. To bring it into our country even before the Board had finalised it. Because we felt that solved the big problem in the country. And because of that if you speak to most countries that have had IFRS for SMEs for two or three years, South Africa has had it for six years already - so we've had a lot more experience with it. I think that allows us to be a little more outspoken in public. ■

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The Grand Dame *of* Home Appliances

Aban Pestonjee is a pioneer in consumer durables retail. The business has thrived since the economy was liberalised and with the war's end is poised for another leap

BY DILSHANI SAMARAWEERA

Portrait

ABAN PESTONJEE

The tiny office room hardly befits the larger-than-life, living brand name of the woman who has become Sri Lanka's grand dame of home appliances. But it quickly becomes clear why. This is the heart of her electrical goods retail, manufacturing and financing kingdom. The small space is sandwiched between employee lockers, the reception and office rooms and is upstairs from the bustling showrooms showcasing some of the top consumer durable brands in the world.

Mrs Aban Pestonjee insists it all started with her role as a traditional Sri Lankan housewife.

"Sri Lankan housewives then, had to do everything by hand. The men were not helpful in the kitchen and in housework," she says referring to her start in the days of Sri Lanka's closed economy, where washing machines and fridges were classified luxury items and only a handful of very, very privileged people had the good fortune to own one. "A housewife had to be the housemaid, nurse maid, cook and everything else. I was a housewife and I can say it was really difficult to look after my babies and attend to the housework, with no help. So really, I just wanted to do something to change things. To make life a little bit easier for Sri Lankan housewives". This simple reason has kept her going, seeing Abans - once a second hand consumer durables retailer -become one of Sri Lanka's largest retail businesses.

They say good ideas are often the simple ones. For Aban Pestonjee, then a young housewife with three young children and a lot of ambition to "do something on my own to supplement our household income," a simple business model was important. Given the closed economy she could not import household appliances and certainly had no capital to buy the goods even if she could have obtained a rare import licence. So, as a practical housewife, she came up with a simple strategy. "I went to auctions at embassies and High Commissions. They would dispose their used electronic goods every year. Also, people who lived abroad brought back their electrical items and sold them. I bought those as well."

But how was she to sell her hard won haul, against so many entrenched corporate competitors? "I gave a guarantee. So if I bought six items, I would keep one for spares. I wanted to be sure that for the money a customer spends on buying something, he or she would be able to use it for some time." That was the start of Abans in 1968, in a small shop near the Bambalapitiya Kovil. The Abans service centre, as Aban Pestonjee smilingly recalls, was located at the Pestonjee garage at Gregory's Road. She also made it a point to learn the technical side of her business. Once in the UK, she had rattled off a list of air conditioner parts she wished to purchase to a shopkeeper. The man listened, turned round to his assistant, and said "Look blimy, a lady who knows about electrics."

A housewife had to be the driver, housemaid, nurse maid, cook and everything else. I was a housewife and I can say it was really difficult to look after my babies and the housework, with no help. So really, I just wanted to do something to change things. To make life a little bit easier for Sri Lankan housewives

Aban says her idea of a guarantee, with after sales support, opened up the market for her. This customer focus, she says, has been, and continues to be the Abans' core value. "We give people value and we give them what they want." It's the customer service that made Abans different, because the others were not so customer focussed, says Pestonjee who, at one time dealt directly with all her customers and still makes it a point to visit the Abans showrooms to check on the service. Knowing her customer was also what kept Abans afloat when the import flood gates swung open after the economy was liberalised from 1978.

When the economy was opened, market conditions turned upside down and Pestonjee found herself "on a bad wicket." Colombo housewives no longer needed to buy second hand goods because previously unavailable imported items were now gradually filtering in. Pestonjee also had no bank financing or agencies to break into the emerging electronic and home appliances market in Sri Lanka. All the big agencies for big brands were held by companies like Walkers and Cargills. "The only thing in my favour was knowing what the consumer wanted, which brands they wanted and of course by then I had the experience of doing the business."

So again Aban Pestonjee adopted a simple strategy. "I sat down and wrote to the principals of the brands and asked them to give me an agency." The response was discouraging. They all had agreements with bigger companies and did not want to change. But Aban who describes herself as "a very persistent person" kept writing to foreign brands. And one day she got a positive response. It was from Electrolux that also appreciated Pestonjee's concept of after sales service. Electrolux became the first Abans agency. After that Pestonjee pitched for and got almost all the popular European and British agencies. There was no turning back from that point onwards.

It was difficult with a young family but Pestonjee says she was always "independent." Perhaps, she muses, a legacy from her father, a marine engineer, who taught her to stand up for herself and more importantly think for herself, although she was born into a generation where women were bound by tradition and strongly demarcated gender roles. The combination made Pestonjee highly resourceful in balancing the traditional roles of wife and mother against the somewhat unusual role as an entrepreneur. "My husband was not very happy about my involvement in business. So I made sure it did not interfere with him and our family," says Pestonjee who had married at the young age of 20 years. She was in her late 20s when she got into business and her youngest child was about 4 years old. None of this slowed her down though, and before long the local big businesses were fighting to hold their ground.

But the housewife won the day. By the early 80s Abans was the market leader in household appliances. Walkers and Cargills, the big British companies "had faded away" because Pestonjee had acquired their agencies by out negotiating even competitors like Kundanmals, that were also gunning for the lucrative agencies. As Pestonjee casually puts it, "They tried to keep the agencies. Eletrolux was a Cargills agency. Walkers had Hoover. I got both in the 80s." Both were star performers. The brands were so much in demand they sold out as fast as they came in.

When the principals of Hoover asked to see the Abans Service Shop, Aban promptly took them to her garage. The impressed Hoover representative made her a conditional offer - Hoover for Electrolux. But Aban was having none of that. With her characteristic directness, she refused to let Electrolux down in exchange for the Hoover agency, because "Electrolux was the first to believe in me and give me my first agency." Instead, Aban immediately made a counter offer. "I offered to keep Electrolux but also import more Hoover items than any other company. One year later Hoover presented Aban with a plaque and introduced her to their MD - for importing more Hoover products in one year, than any of their other agencies. Hoover is still with Abans.

I feel when you deal with business people, you must be upfront and honest. They will rely on you to work with, only if they trust you.

Over the next few years Aban kept collecting international brands under the Abans roof. Gold Star, now LG, originally did not want to give the agency to Pestonjee and instead offered OEM. Pestonjee convinced them it had to be Gold Star. This paved the way for the hitherto unknown Korean brands to get a foothold in the Sri Lankan market piggy backing on the Abans guarantee.

A skilled negotiator, Pestonjee says the key to good business is honesty. "I feel when you deal with business people, you must be upfront and honest. They will rely on you to work with, only if they trust you." Aban says she faced no undue discrimination in the male dominated industry. "They were always very polite and treated me like a lady, because if you know your business, it doesn't matter whether you are a man or woman." She also advocates good relations even with her competitors.

A grandmother of seven, Pestonjee still cherishes traditional family values. Abans is very much a family company with her 3 children now in the driving seat as directors of the group and one grand child already involved in the business. Her children Mrs Dubash, Rusi and Tito manage different areas of the diversified Abans empire. Rusi, the youngest, overlooks the group finances and the operations of McDonalds, that has been taking the fast food culture into the suburbs. Mrs Dubash her daughter overlooks SA Electrics and Abans imports and stocks. Tito has taken over the business of managing the ever increasing Abans sales. Tito is also in charge of Abans branding and advertising that is channelled through an in house ad agency. Pestonjee says she would like her other grandchildren to join the family business but admits that traditions are changing. As she says in her characteristic direct way, "When they go abroad they get different ideas, which they shouldn't. We need help here. The business is expanding in different areas. So I would like very much for them to join."

So how big is the business today? "Let's just

SILVERNEEDLE HOSPITALITY MANAGING DIRECTOR AND CEO IQBAL JUMABHOY (LEFT) AND ABANS GROUP CHAIRPERSON ABAN PESTONJEE SIGNED THE DEAL ON THE $100 MILLION LIFESTYLE MALL. CONSTRUCTION WORK ON THE MALL, TO BE NAMED THE COLOMBO CITY CENTRE, OPPOSITE THE BEIRA LAKE IN COLOMBO, WILL START EARLY NEXT YEAR AND IS EXPECTED TO BE COMPLETED BY 2016.

say we are on par with Singer Sri Lanka," she says sidestepping the numbers. "We and Singer are market leaders." Today, there is no comparison with the closed-economy start of Abans. When Abans sold "about three fridges, 2-3 washing machines and a few polishers a year," now, the 400 Abans retails stores, are "selling goods by the containers load." The company has also gradually shifted from its almost total import dependency, where about 25% of the group income comes from products assembled here and other services. The group currently comprises 21 businesses that top Rs25 billion in annual turnover. Each company belongs to one of five strategic business units in retail, services, manufacturing, logistics and real estate & infrastructure development sectors. The company is also a large employer with a workforce that numbers around 6,000 people.

While Aban does not put a specific number on the value of the family jewels, the years have not lessoned her enthusiasm and love for the business. Pestonjee is now finalising plans for an expansion into a new market - but one still very much in line with her traditional family values. "We still want to be in the family and household sector. So we are looking into expanding into a family entertainment mall concept," says Pestonjee. The idea is to provide wholesome family entertainment, with multiplex cinemas and shopping. "The idea is for Sri Lankans to have good clean fun. Not those discos they are having all over now," she explains.

Abans has already acquired prime land opposite the Beira Lake on a 99-year lease and is planning a mixed hotel-mall and apartment complex. The project is a partnership with Indian company Silver Needle Hospitality co-founded by Nadathur Raghavan who was also a founder of NASDAQ listed Infosys. The joint venture will develop a mixed-use lifestyle centre, inclusive of a 200-room Next Hotel, a four-storey lifestyle mall and a 30-storey condominium tower. The total investment in the project is in excess of USD 100 million. Construction is expected to start this year and completed in 2015. Abans is also planning a mini mall behind its Kollupitiya showroom which is due to materialise faster.

We will go public at some point but the directors must decide when the time is right, when we know that people who invest in us, will be well taken care of.

The post war economy, says Pestonjee, is ready for the concept. But she expresses some misgivings. "If we develop our country, all businesses will succeed. You can't expect miracles overnight but we have to stop the brain drain," she says. "Universities have become such a mess we have to send our children abroad and then their thinking changes and they may not want to come back. So we will lose what they could have contributed towards the country. So the most important thing for the future of the country, is to put our university education right."

Pestonjee says she is open to going public someday, to fund further expansion of Abans. "We will go public at some point but the directors must decide when the time is right, when we know that people who invest in us, will be well taken care of. We can do this even now but we have the funds. But we would like to put up more malls out of Colombo," says Pestonjee.

She says losing some control over her company might be worth it. "You have to let go sometime. You can't hold on to everything. It's about giving the public more of your expertise, which is good for the country. Even if we go public the Abans name will be still there," she says. "So who would you like to see taking over Abans after you retire?" we ask. She responds without hesitation. "The succession is creating a problem for me because I don't want others to be hurt when I choose one person. So I keep putting it off." Which means, at least for the conceivable future, Aban Pestonjee will continue to be the personification of the Abans brand. ■

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IFRS FACE-OFF

The opinions: After the convergence

BY SHAMINDRA KULAMANNAGE

Manil Jayasinghe,
Partner, Ernst & Young

Interview

Listed firms switched to reporting their financial performance based entirely on international accounting standards in 2012. Users of annual reports may have noticed that the tomes are now thicker and stuffed with even more disclosures. But how useful is all this?

There was motivation for a change as Sri Lanka emerged from a long war forced period of isolation. Converged accounting standards will make it easier to compare the performance of Sri Lankan listed companies, which have been showing above average earnings growth in the last few years, with ones in most developed parts of the world. Investors will be making better decisions and be more confident they will be comparing apples against apples and not against bananas. It saves international investors time because they don't have to consider the idiosyncrasies of national accounting rules and their distortions of reported performance.

Ditching the national accounting rules however impacted many important aspects of a company's reported performance in the published accounts because recognising revenue, assets and liabilities required different treatment. This changeover also will challenge accountants at several levels.

Firstly the changeover itself was onerous for accountants because a number of new standards which have never applied in Sri Lanka had to be complied with and secondly they had to champion the change not just in the finance department but across the entire organization. Thirdly in applying some IFRS's subjective judgments are involved and these interpretations may fluctuate in the early stages, leading to some inconsistency and more anxiety for stakeholders.

Nilanthi Sivapragasam, Chief Financial Officer of the Aitken Spence Group has been highlighting the generally overlooked challenges. Accounting firm Ernst & Young Partner Manil Jayasinghe, meanwhile has been a champion of the convergence of accounting standards. The two articulate their divergent opinions in the interviews that follow.

Nilanthi Sivapragasam,
Chief Financial Officer,
Aitken Spence Group

Manil Jayasinghe, Partner, Ernst & Young Sri Lanka

You are a strong backer of IFRS adoption. Can you tell me the crux of that argument?

From a Sri Lankan point of view, since we are a country which is trying to go to the outside world to attract investment and things like that, our financial reporting needs to be on par with everyone else. See, if you are a large country like India or China, the potential investor will take the trouble to recast financials in a language that they understand. But given our sizes the companies we are trying to attract are unlikely to want to do that. If your financial reporting is not on par, what typically happens is, there is a tendency for them to make an adjustment for risk.

Because the profits that you record or the Balance Sheet numbers that you record may differ if you were to apply international rules. If you take a Sri Lankan company, the biggest by market cap here, it isn't that big in an international perspective. So it's unlikely that they are going to recast your numbers in line with international norms so that they can evaluate the investment.

Primarily, financial reports are used by people to make economic decisions so whether to invest in a company or whether to divest. Now for that investor to make those decisions you need information in a language which everyone understands.

Sri Lanka's accounting standards were always based on IFRSs though we adopted them a little late and certainly based on the same principals. Why was this not adequate?

It was a consideration, but the only difference was we were adopting the version of IFRS which was the 2006 version whereas we are in 2013 now. That's one thing. Then there were some fundamental standards which we never adopted. That includes critical standards like the Financial Instruments standards that we never adopted because we felt it was too complicated and our markets not being ready. Then you have a disparity. So your accounting standards are about two versions older.

In your opinion has this transition to international standards been a smooth one?

I think given the circumstances we did quite well. We announced it in 2009, I think. So you basically gave the market about two years to get ready. Given that some of these were new, a lot of skill building then took place. Europe took, for example, five years. I suppose if we had five years it would have been better but at the same time people tend to wait for the last minute.

Look at this in a cost-benefit point of view. A detractor may argue that the cost of such a transition has been significant, and the disruption it caused has been significant for medium-sized listed companies?

Yes, the cost has been quite high because of the many factors. One is skill building and getting consultants. Plus the next part of the cost factor has still not been reflected and that is a change over in their systems to accommodate this on a real-time basis.

But the response to your question is do we do financial reporting in respect to what the market wants or do we do financial reporting that we can afford.

Do you feel the mindset change surrounding this accounting standard convergence has happened?

Should we go there is the question? Because over 100-odd countries have adopted this, and do we want to be there or not? The question actually goes back to globalization also. If you were an insulated country then I guess, to some extent, we could have looked at our local market only and just given them what they want. Sri Lanka is not really a country which is insular, right? It has opened out, become globalised and we believe that's the way to go.

I ask about a mindset change because there is a concern that firms could end up approaching this as merely a compliance exercise. Is that a real danger you think?

Oh definitely. My personal view is that once again the issue is these are standards which businesses must inculcate and must infuse into their business models. You can't do this as a compliance exercise because, then, at some point you are going to fail and the repercussions can be disastrous. This is where your question of costs comes in. If you do this as a compliance exercise then it becomes a cost. Do this as a part of your business and it ceases to become a cost.

You are a consultant and accountant, so you have a view of the industry that most people don't have. How far down the road of this mind set change do you think Sri Lanka has come? What's your assessment?

I think we have started the journey. We are at the initial stages. Because our initial hurdle in 2012 was to get the financial numbers to reflect the new accounting standards. Now the mindset change has to take place and people have to start incorporating various provisions and principles in to their business psychology and business processes.

In 2012 it was a question of complying. Now businesses have to start thinking of how they are going to embed these processes, the requirements into their business processes. Once that happens they will stop thinking of it as a cost.

Most companies rely on their financial reporting inputs as sources for the management accounts. Right now there seems to be a disconnect between financial accounting and management accounts caused by the wholesale implementation of new standards?

Nilanthi Sivapragasam, Chief Financial Officer, Aitken Spence Group

From a preparer's point of view you've been critical of this IFRS adoption, why?

In Sri Lanka in the past we have been following International Accounting Standards (IAS) but we referred to them as Sri Lanka Accounting Standards since we always lagged behind the IAS, and some of the standards were tailor made or modified to suit the Sri Lankan context. The process of adoption was that the o IAS was reviewed by the Sri Lanka Accounting Standards Committee which decided whether to adopt them or not, and even if we did adopt them whether they needed any amendments. That's how the process has taken place over the years.

I have been involved in this process and served on various sub-committees which reviewed the standards from the industry perspective. I was one of the people who used to protest when I felt we were going too fast. In the sense I felt we were not giving adequate thought to the implications of adopting them in Sri Lankan companies or in our reporting requirements. Particularly during the war years when Sri Lankan companies were struggling. We were rather critical of the process stating that we were trying to have a five star reporting framework when we had a two star economy! Also at that time the governance framework was not very stringent as we were just trying to survive. Many felt that the reporting process which appeared to be bent on trying to adopt the International Accounting Standards en bloc was not appropriate for Sri Lanka.

To a certain extent, I understood that if you have uniformity in reporting, it's easier to raise funds in international markets. However at that time it was not quite the priority, we used to feel.

There were also certain standards, particular the standard on segmental reporting which when being reviewed prior to adoption, I was very vociferous in my protest at that time together with other big companies. The reason being that we were listed companies operating in different sectors and previously when we used to report our results it was all in terms of the group. But with segmental reporting we had to segment the results according to different sectors. We felt at that time since most companies were not listed we were giving a lot of internal information which would be available to our competitors

In the mean time the governance framework started improving after the war ended and we are now trying to boost up the economy by trying to attract foreign investment. As such the arguments for compliance and conforming with IFRS obviously outweighed the negatives in a sense and finally it came to a point where one felt if you can't beat them you join them!

The other reason we were not in favour of adopting en bloc International Accounting Standards but having instead certain standards amended or tailor made to suit our requirements was because the US did not adopt the IAS and had their own reporting framework. Also the Sri Lanka Accounting and Auditing Standards Act was introduced in 1995 without adequate debate or discussion about it, and all relevant companies had to comply. The accounting standards had to be gazetted and became law unlike in other countries. For instance in the UK it's not law so if you don't comply or you don't adopt all the standards it's not a criminal offence. In Sri Lanka non compliance with l Accounting Standards is a criminal offence. There was nothing any one could do about it. They are not going to repeal an Act. So that was the framework or the broader circumstances under which we felt it was not appropriate for us to just adopt the IAS en bloc.

Thereafter finally we realized that, there is no way that we can be out of it, as most countries started converging their accounting standards with IFRS. Then Sri Lanka also decided that in 2012 we would also converge. So it was like we were swimming against the tide. Then it became a task for people like me to convince others in industry who were still of the earlier view.

So you would have ideally preferred a gradual process instead of overnight adoption?

I think it's too late for that. But now we need to express our views strongly at the international level. We need to improve our process. When the International Accounting Standard Board issues an exposure draft we really need to study it and give our views and influence that process prior to adoption as an IFRS. Previously we didn't have much of a voice and whoever was the representative from Sri Lanka would have found it difficult to say, Sri Lanka is not ready for this. So we just went along with it. But prior to convergence, before adoption of an IAS/IFRS as a SLAS we used to go through a process and maybe even modify it to suit our requirements. For instance in the retirement benefits standard, there were problems related to compliance because we didn't have many qualified actuaries in Sri Lanka and also a lot of companies found that they could not afford to get an actuarial valuation. Hence in the case of certain standards, up to very recently, there were allowed alternate treatments. Now that we have converged with IFRS we (Sri Lanka) need to get involved at the initial stage. When they issue an exposure draft or they want to amend a standard we need to be part of the process and check back here to see whether it would be appropriate for us, and if not may be suggest alternatives.

That's the process for new standards. But in this convergence there was a bunch of standards which have automatically been adopted here. What's the transition been like?

Manil Jayasinghe, Partner, Ernst & Young Sri Lanka

There is a bit of a disconnect. The reason for that is we are still moving from a particular way of thinking. But that I gauge will happen in the next two years.

One way this gap can manifest itself is also the sorts of processes and systems that were in place that may have to adapt or change because the information required as inputs may be different now. Is this a challenge that you see in Sri Lankan companies?

It's a challenge which companies will have to quickly get on board. Management accounts would probably be taken into account when decisions are made. However, when it comes to preparing or presenting those decisions it's the financial reporting standards that will take precedence. So if at the time you're not aware of how an item or a decision that has been taken is going to get reflected in your financial statements, you might have some nasty surprises.

Reengineering systems and processes is expensive and complex. As an accountant what would you say to someone who is worried about the complexity and the cost?

You have to approach this in the right spirit. When you're running an organization there are many things the organization has to do. They have to run a business, show profits, they have to comply with the laws and regulations. Presenting a true and fair view in the financial reports is also important because they are using resources of investors. See, if they are using these resources they need to report back to the market as to how the business is performing and how these resources are being used. So there is a responsibility. So if you take it in that light this doesn't become a problem because it's something that you have to do in order to discharge your responsibilities. The problem with some people is that they don't take this as a responsibility; they think that financial reporting is just a requirement of company law which says that you have to publish financial statements. It is not that. It is that you are using the resources of other people.

Do you feel the transition is getting the sort of attention from senior management or at board level that it should be getting?

Actually I must say in the last year or two there has been an improvement in that. Earlier the financial reporting was considered one of those compliance things. But now I feel most of the audit committees and boards have realized the importance of it. There is some traction and also if you speak to the CFOs you'll also find that they are getting more support from the board and senior management.

It's not just the CFO that has to be knowledgeable about this transition. I suppose the audit committee not being knowledgeable can also be a huge impediment?

That's true because the audit committees came into being to ensure that information that is going to the public goes through a process to ensure its accuracy. Earlier it was a concern of the board but the board probably didn't have adequate time or the skill required and therefore that is to ensure any information going to the public that is sensitive needs to be reviewed to ensure that those have the necessary level of integrity.

Another challenge is that businesses are now grappling with unanticipated changes in the financial results due to application of new standards. We saw this I think in real estate and Aitken Spence, for instance, can't recognize their power plants as assets. So even very large firms seem to have been caught off-guard?

The reason for that is that we have been tending to look at things from a legal standpoint and not really look at the substance of the arrangement. So when you really look at the substance of the arrangement you come with a different answer. If you take a power purchase agreement; what happens is you are an independent producer running a plant. But if the agreement is so tied up that the output can only be sold to the CEB and no one else, then you can't produce power and sell it to the third party and during the period of the plant's life the total capacity is purchased by CEB. What does that tell you? It tells you that you don't have the freedom to do what you want with the plant and that the CEB is, sort of, controlling your power plant. This is where the substance comes in.

I think application of IFRS has moved us towards the principles of accounting which are embodied in accounting standards rather than accounting for transactions on legal rights.

Sri Lankan industry and businesses had an opportunity, when Sri Lanka's standards were being discussed, to comment or to make substantial representations on Exposure Drafts, something that is more difficult to do with international standards. What are the realistic options now for local firms to be heard in this process?

The Institute of Chartered Accountants, the standard setter, has decided that we are going along with IFRS. The process Sri Lanka will have to follow is that when an Exposure Draft is issued for comment Sri Lanka will also have to analyze the standard and its requirement. Since those requirements will impact local reporting, any areas where the principles need to be changed or the processes need to be changed will have to identified and pointed out to the IASB through the regional body called the Asia Oceania Standards Group.

Are you optimistic that we can be heard in this standard setting process?

Of course we can. Because what happens is most of the standards are influenced by the Anglo Saxon world and what's happening in those economies. But the Asia Oceania area hasn't really got into the standard setting frame yet. It's upto us now to make our view point clear.

In this whole process of the transition accounting firms are involved at a number of stages from helping firms understand the implications to analyzing the gaps and helping with the reconciliation between current standards and old ones. So one may turn around and say this is a process that's inherently beneficial to consultancy firms which is why there is so much enthusiasm from them. How would you respond to that?

I can talk about our firm. When the standards were issued to the market no one was doing anything about it. It was towards the end that we decided to educate the market because we felt they didn't understand what they're in for. In our case it was not really the intention of creating work or making money. It is at the end of the day about us having to audit these numbers. In our audit we had to say it's in compliance with Sri Lanka Accounting Standards. What was our choice? Are we going to qualify these numbers?

Different people would take different views on this. In our case, we wanted to manage our risk to some extent and ensure that the organizations were prepared rather than get caught out in the end when we had to take some drastic action. And this is not a continuing line of business, because as the capacity builds management will do these things on their own.

Do you feel we are keeping up with what is needed to maintain the integrity of the accounts?

I feel that things are going off the boil a little bit. The reason is people are now taking it easy again. What the market has done is approach this as a compliance exercise. What it should now do is take a systems integration approach. Now you are trying to integrate these requirements into the processes so that they have a system which is self-contained and puts up this information automatically. ■

Nilanthi Sivapragasam,

Chief Financial Officer, Aitken Spence Group

In terms of the Aitken Spence Group we were well prepared for the transition. We started the convergence process in 2010 and we hired an outside consultant, one of the local accounting firms, to assist us in the process. We did a gap analysis and we had a team of people dedicated to this project and relieved some people of their other responsibilities for a year or longer, until it was completed.

Can you highlight some instances of how you are challenged by the new converged accounting standards?

Take for instance related party transactions. In Sri Lanka, because it's a small place, many people in the business community are related in some way or other. You'll have somebody who is working with a customer or a supplier who is a child, a spouse or a partner of a person with "significant influence", so capturing that information and identifying a related party is a challenge for companies like ours. I don't think it would be such a problem in a developed country with a large economy. .The standards relating to financial instruments are also a challenge. Some countries have financial systems that produce complex transactions. These standards were a response to crises like Enron, where they did not recognize some special purpose entities which eventually had a huge bearing on the entire company. But in Sri Lanka we don't have a fraction of that complexity in financial instruments. So you wonder why you have to bring that whole thing into Sri Lanka. Actually adoption of the financial instrument standard was consistently delayed; we never really adopted it until the time we converged.

So this was something that could have benefitted the accountancy consultancy business?

Yes, and it's ongoing. As a group Aitken Spence has transitioned but we have to constantly keep abreast of what is happening.

In our convergence process, we had to get the buy in of all the top management and sector heads. That's how it started. Then we went to the next level where we went to the finance people.

I think in a way that was a good thing because previously accounting standards were left to the accountants. Operational directors, the marketing directors didn't really care about them. It was up to the accountant to ensure that you reflected everything properly. Now they realize that you need to get the finance people involved even at the beginning of a transaction, a contract or a joint venture. So this has given accountants and finance professionals a more important role.

Some of the financial results based on the new standards were completely different to results based out of the old standards. Did Spence face such challenges?

There was a huge change in the power sector. When con-

Nilanthi Sivapragasam, Chief Financial Officer, Aitken Spence Group

verging with IFRS we had to consider IFRIC 4which was relevant to power companies which have an agreement with the state utility. We were used to reflecting the power plants as property plant and equipment and the income from the tariff we charge as revenue. But according to IFRIC 4, the power purchase agreements had the characteristics of finance leases. . Therefore a significant asset, the power plant which was previously shown as Property Plant and Equipment, , is now being reflected as a Lease Receivable. However, according to the articles of the company, the BOI Agreement, and the agreement which we entered into with the Ceylon Electricity Board, the company's main business is power generation. But in the interpretation of some of the terms of the power purchase agreement according to IFRIC 4, it seems to be a leasing company. It's something that even an accountant might not be able to grasp.

What does IFRIC stand for what?

International Financial Reporting Interpretations Committee. They issue interpretations of IFRSs and provide guidance on accounting issues.

Sri Lanka always had this gap in financial literacy even at board levels. Adopting wholesale these standards would not have done any favours?

No, definitely not. Now I find that even people who are chairmen of audit committees are challenged. Because on one side you had the rules of governance and the responsibilities placed on them which the regulators closely watch, while members of board audit committees who could be accountants who have experience under the old regime and suddenly find it challenging because balance sheets have changed significantly.

What standards are trying to do is provide a true and fair view but the wholesale IFRS adoption may have compromised comprehension?

The more complex the business transaction, the more complex the accounting standards will be. Why are standards changed? Because you realize that certain things are slipping through the net and not being reflected properly. Accounting standards are also trying to capture everything so that it's laid out for the investor or the stakeholder to see. But how much can they understand?

For instance the Aitken Spence annual report also increased in size, the financial statements alone are 1 ½ times the previous size after the convergence with IFRS. This is because of the additional disclosure requirements, but how much can an ordinary investor understand?

Often financial accounting inputs are used as source for management accounts.
When you change your financial accounting inputs does this in any way impact on management accounting outputs?

In some sectors, yes. In the power sector for instance where the managing director finds it difficult, naturally, because he would expect the financial statements to reflect what is stated in the power purchase agreements. Also the impairment of receivables We had this policy within the group where we provide 50% for receivables over 90 days and anything over 180 days 100%. This was the motivational factor for companies to go out and collect their debts.
Now what the standard says is totally different, you have to look at the past and work out the provision. There is a complicated spread sheet that has to be done. So we had to compromise on that. However, for our management accounts we still go on the internal basis, because that's what people are used to and that makes sense for the organization.

The reconciliation process may not be as challenging for smaller firms, do you think?

Smaller firms may not have the technology. In our case we have a good ERP (Enterprise Resource Planning) system. If you don't have that kind of ERP system it can be difficult specially for the finance personnel who are preparing the accounts.

Besides audit fees this convergence exercise would have required consultants?

Yes, for example when this issue with IFRIC 4 came up in the power sector, even the local consulting firm was unable to advice us. They helped us a great deal, but even they couldn't really say it should be this way and not that with finality. They had to consult one of their foreign offices which meant obviously additional fees for the company. . Thereafter even audit fees increased. What happens is you pay consultants to assist you in the convergence process, to do a gap analysis and all that and then finally the auditors also needed to carry out additional audits to verify the restated figures and the process.

Do you think there is anything else that you want to highlight?

It is a continuous challenge that we need to be able to meet. We need to be aware of the changes taking place and be ready for them. But the institute, I think, also needs to be more involved in the standard setting and review process at the international level and have its voice heard.

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Focus On - Technical

Quality assurance - getting classy with audit

Quality assurance reviews, to be implemented systemically from 2014, might seem intimidating and tedious especially for small and medium audit firms and sole practices. But these audits are a global practice that come with the latest accounting standards adopted by the island. Ultimately, audit quality assurance will benefit auditors, helping them become more professional and providing a regulatory stamp of approval that will assure clients, says Tissa Bandaranayake, a Fellow member of the Institute of Chartered Accountants of Sri Lanka, former Chairman of its Audit Faculty and current Chairman of the newly created Audit Quality Assurance Board. Their importance can be gauged from the fact that, of the four CA Sri Lanka projects funded by the World Bank, it was audit quality assurance that got the highest funding. In this interview, Bandaranayake who retired from Ernst & Young as senior Partner in 2009 after 27 years of service, explains the merits of Audit Quality Assurance.

Could you explain how the Audit Quality Assurance program came about?

The Institute Council felt there was a need to improve the quality of service provided by practicing accountants, maybe arising from certain things that have happened in the past and certain complaints. With that in view they created this body known as the Quality Assurance Board about two years ago for which they selected people who are very senior, independent members of the Institute with exposure to quality control and industry practices supplemented by representatives from all key regulatory bodies - especially the Central Bank, Insurance Board, Securities and Exchange Commission, Sri Lanka Accounting and Auditing Standards Monitoring Board, and the Auditor General. Our task was to develop a plan to achieve this objective, primarily with the audit aspect in view - that clients get the right service in their statutory audits.

When representations were made to the World Bank, they accepted the need for such a program and agreed to provide funds to get it properly structured and started. The program is divided into several segments. One covered the well-established, large company auditors, another the small and medium practitioners (SMPs) who may not be doing that many large firms but nevertheless need to be covered to improve their own performance. Thirdly, the public sector which is handled by the Auditor General's Department (we don't get directly involved) and for which another committee headed by a former public servant was set up.

We called for worldwide tenders to get the right resources to start the programme, such as people with the right experience and exposure. We had expressions of interest from several countries and, after an evaluation process, selected the Institute of Chartered Accountants in England and Wales (ICAEW) which has done similar projects with other developing countries like Thailand and Ghana.

Is Audit Quality Assurance going to be mandatory?

That is an issue that's going to be discussed and we're actually putting up a paper to the Institute Council. Our view and the consultants' view is that for the quality assurance review to be effective it should be made mandatory. But whether the Council feels in the initial stage it should be voluntary and later made mandatory is left to the Council to decide. Abroad, such as England, it is mandatory.

What are the weaknesses the program is meant to address? What were the concerns about the reliability of audits that led to this initiative of, in effect, auditing the auditor?

One of the starting points was a new standard called SLSCQ1 -Sri Lanka Standard on Quality Control 1 - originally published by the world body, IFAC (International Federation of Accountants), which Sri Lanka adopted almost completely. That brought about certain minimum requirements that practicing audit firms must have in order to provide correct audit services to the public.

This is quite apart from the real, technical details of other auditing and accounting standards like how you measure a transaction, how you report a transaction, what are the disclosures.

This is a generalised sort of infrastructure that each firm should have in order to get on with their job. For example, it covers areas like independence of the auditor, what processes they have to ensure they're independent of the company being audited. Similarly, how do they recruit staff, with what qualifications, by what processes. Thereafter, how do you train them - give them the necessary practical knowledge and the other training required to perform their tasks, even how you select a team to go to a particular audit. Even if someone is found to have faulted in not following certain procedures, do they have processes in place to correct that situation at least for the future, either by reprimanding or punishment or how to avoid such situations in the future.

Our consultants felt that all audit firms, big or small, should at least have that basic infrastructure in place. From that point of view, when we say we're conducting preliminary reviews of these firms to see if they are in line with SLSQC 1 we're in fact creating awareness among them that these are things they should have in their own places, which they might not have realised. It is very true because when they were asked if they had read SLSQC 1, almost everyone, except one or two rare exceptions, said they had not. So obviously it is a process of creating awareness

Auditing the auditor was a concept that has been developing over the years. But what we felt was that it is up to the profession itself or the regulatory body, the CA Sri Lanka, to give the lead by ensuring that we put in place a programme to monitor the performance of practicing members. If not, what they felt is that people who are in practice are under no monitoring mechanism and it could have

QA UNIT TO BE SET UP

A separate Quality Assurance Unit will be set up at CA Sri Lanka to take the program forward from next year, says Navini Peiris, Manager - Technical at CA Sri Lanka in charge of Audit Quality Assurance (AQA).

That's how it is done elsewhere the audit quality project operates like England, Pakistan and Ghana.

"The small firms too need to be monitored," she says. "There are many SMEs that give their accounts and tax work to these small audit firms. There are some small firms doing high quality work but at lesser cost. This program will ensure the work of all firms is more structured and proper audits are done and checklists followed."

Peiris explained that after the initial reviews, CA Sri Lanka will issue a report to the firms, reporting on any weaknesses.

"Then they come back to us with comments, after which we give a timeframe for them to correct their errors. Then we go and check again."

The project is funded by the World Bank which has extended a grant to the Institute of Chartered Accountants of Sri Lanka aimed at enhancing its core technical activities. The grant, channeled through the bank's Institutional Development Fund, will cover four components of which implementing an Audit Quality Assurance program is one of the key areas covered. With a view to enhancing overall audit quality, a set of clarified standards comprising 36 Sri Lankan Standards and a Standard on Quality Control (SLSQC - 1) have been issued. This standard on quality control deals with the firm level quality control processes and systems of quality control in compliance with this SLSQC which are required to be established by 1 January, 2013.

A panel of QA reviewers will be appointed by the QAB to carry out the reviews. The reviewers will be provided with classroom type and on-the-job training to carry out their task. The panel is required to be technically strong with expert skills to carry out engagement and firm level reviews.

Focus On - Technical

TISSA BANDARANAYAKE

resulted in complete outside bodies coming in to regulate the profession. Not that we want to keep them away; on the QA Board we have got the regulatory bodies also represented so their views are also taken and they also will realise the needs of the Institute.

Was this in response to perceptions and complaints of poor audit quality arising from well-known corporate collapses owing to fraud that went undetected?

This is a worldwide phenomenon. We're now almost fully in line with international auditing and accounting standards which presupposes that the firms have the necessary wherewithal to provide those services. We want to be in line with the rest of the world.

When the IFAC produced this document, we virtually adopted it fully and called it SLSQC 1 as the foundation and basic requirements were the same. Globally, this was mainly in response to corporate collapses like that of Enron and certain banks. In some cases they found it was owing to the fact that the audits had not picked up signs of something going wrong. It does not mean that in every case the auditors were at fault.

Even in Sri Lanka there were certain finance companies that crashed. Some people found fault with the regulator, others asked what were auditors doing. This is a sensitive and difficult area because in an audit you simply cannot cover all the millions of transactions. So what they do is they try to see if there are good enough controls and processes in place to generally ensure transactions that take place are authentic, approved transactions. They do tests to see if those controls are working properly

One of the main things here is to make sure members are aware of public expectations and be more mindful about it and for the public also to be equally aware of certain limitations in the audit process

based on which they decide the level of sample checking that they do. It's actually a risk control audit they do - if there's higher risk they increase the level of testing. Still, if you look at the overall accounts, percentagewise, you may be doing only a fraction of the total transactions. But the reliance is placed on the effectiveness of the controls that are put in place.

So it does not necessarily mean that the auditor will always find wrongdoings but public perception is that they should have detected it. One of the main things here is to make sure members are aware of public expectations and be more mindful about it and for the public also to be equally aware of certain limitations in the audit process.

The broad answer to the question is that this was due to the failure of certain companies particularly in the financial sector both in Sri Lanka and overseas

What are the concerns of auditors who will be subject to these reviews?

One of the biggest problems we had was the apprehension in the minds especially of smaller audit firms. When we called for certain information to decide what checking we should do - we wanted to know how many audits each audit firm does, how many of them are public listed companies - some of them appeared reluctant to provide such information because they had doubts. They said they don't know what is behind this move and were worried that it might affect their ability to continue in business.

So to clear these doubts we called each and every member holding a practicing certificate to a series of seminars conducted by the visiting consultants to explain the programme, the need for it and to clear any doubts they had. That went a long way in clearing the misapprehensions. That's part of the battle won.

In the case of large firms, there was no such difficulty because they anyway had this kind of quality assurance process in place because they were already affiliated to or were part of the international audit firm network. They normally get themselves reviewed, say by a team coming from the region. Big firms are anyway exposed to this. It is the medium and small ones who were not. We believe they are now prepared for review. We have started conducting preliminary reviews, of all sizes of firms, and we have had no real objections.

In England, when they renew licenses annually they get this data in the normal process of renewal. In Sri Lanka we never had that system. We only say have you followed the professional development minimum requirements; if so you are eligible to renew your license. We don't get any details of how many partners are there in each firm, how many audit partners are in each firm, how many other technical, trained people are there, the kind of audits they do, type of services they provide to the public.

Financial statements are sometimes seen as deceptive - when companies resort to what's called 'window dressing'. Will quality assurance mean less room for such practices?

Definitely. It's meant to eliminate them. If it doesn't, since everyone is meant to follow it properly, it's only a person inclined that way who will go out of his way to 'window dress' or do something similar.

But the present accounting and auditing standards are so detailed and restrictive, if they really follow them, then such things can't happen because there are certain minimum disclosure requirements that have come in which have made annual reports so much bigger.

If you follow the accounting standards, actually you can't do window dressing unless somebody really manipulates it through so many stages.

In fact, from the time the accounts started getting prepared under the new requirements, it became so voluminous that I have found that at most AGMs of companies - I attend several as an independent director - very few real technical questions are raised on the accounts proper. The reason I believe is that most average shareholders who attend find it difficult to understand this complex set of accounts with loads of figures and notes.

I think the intention of the people when they modified these standards was really to provide the right information to people who know what to look for, such as investment analysts and professional shareholders. But the average shareholder who wants to put in some money and get a return and capital growth will find it difficult to understand.

If you follow the accounting standards, actually you can't do window dressing unless somebody really manipulates it through so many stages.

$500,000
World Bank grant to CA Sri Lanka to enhance technical activities

BUILDING BLOCKS

The World Bank says the grant was given as the government is keen to improve the investment climate, build investor confidence for attracting foreign investments and spur private sector development.
"Strengthening governance and transparency in the private and public sectors are the key building blocks for improving investor confidence. The proposed IDF grant aims to support activities that will build up the capacities of ICASL to strengthen corporate governance through strengthening audit quality and standards as well as to strengthen transparency through improved financial reporting standards in the private and public sectors."

The accounts cannot be made simpler as we have to follow the international accounting standards now. But simpler explanations are given, rather than in the actual accounts proper, in the director's report or chairman's report where they highlight how the business has grown or gone down, for what reasons, the kind of profit made, the kind of dividends they are able to declare. And in the last few pages, called the non-audited part, you give summarised information over the last 10 years, how the dividend pattern has been, how sales have grown, the share values.

There must be hundreds of small practices and sole partnerships. How well equipped is CA Sri Lanka in terms of trained and skilled manpower to actually carry out this review?

We have about 600 practicing certificate holders among approximately 400 audit firms. That's one of the biggest challenges we face because we need

Number of firms covered under Initial Assessment Visits

Top 4 firms	4
1 audit partner firms	381
2 audit partner firms	50
3 audit partner firms	17
4+ audit partner firms	20
TOTAL	472

to have a team of reviewers to visit these firms. In a county like England under the ICAEW they have a separate unit who are full time employees of the Institute and who are tasked with this work. We, starting afresh, also wanted to have a team of three or four if we could but found it so difficult to find people. No one was willing to come as full-time employees. They said they have their own practices or other work but can devote some of their time to come on a part-time basis. That's how we're currently managing but we eventually need to come to a stage where we have full-time people. Funding is another issue. This kind of programme costs money. The initial phase till April 2014 is funded by the World Bank. In other countries these programs are self-funding. We need a budget to hire qualified accountants who are trained and experienced to do audit reviews and with enough exposure in the field. If we can't find enough professionals in the country we might consider getting people from neighbouring countries like India, Bangladesh and Pakistan.

What are the benefits of adopting quality assurance?

When a company gets reviewed we feel some form of recognition will have to be given to them, that they are part of this quality assurance programme, such as a certificate - like a feather in their cap. They will see an advantage to themselves - by improving their own structures within the office, being able to provide a better service. Also, because regulatory bodies are also represented on the AQA Board they will be fully aware of the standards of firms. And firms that have got clearance through this process will be looked at more favourably by their clients in future, giving an edge when new auditors are hired.

Firms that have got clearance through this process will be looked at more favourably by their clients in future, giving an edge when new auditors are hired

This gives greater confidence that they are now equipped professionally in line with international requirements to provide a proper service to their clients.

Will this result in more cost and complexity for audit firms, especially small ones?

The first phase will not cost much money - it's just a case of getting the right processes in place. For example, you're supposed to document your auditing findings. The initial reviews have revealed some cases where adequate documentation is not prepared. This can go against the auditor, for example, if the matter goes to court and they call for the audit file and find not enough details of the work done. There are some basic requirements to be fulfilled which do not need a large amount of money. So the cost will only be marginally higher against which the firms will have the satisfaction of saying they are second to none and operate according to international standards.

Will you eventually grade auditors?

We're looking at it at the moment - for some kind of grading system, say when companies get through the review with no significant bad findings. Grading will be in our minds at the time of awarding these certificates although that will not be immediately made available to the public and will first be shared with the audit firms. We do need to maintain confidentiality although eventually the public should know where they can go for better quality service.

There seems to be an expectation gap - between what an audit does and what the public thinks it does. Will these AQA reviews bridge that gap?

Not directly. Instead it will create greater awareness, such as through our seminars and the media. We want to make the public aware of the limited scope of audits. Now there's greater responsibility on auditors to be mindful of fraudulent acts. Initially, it was held that fraud was not meant to be caught in the audit but, depending on the controls in place the chances of picking up fraud are greater. But if there are fewer controls, the auditor may have to decide if he can give a proper opinion. We want to better educate the general public on what to expect from audit. ■

Update

30% of 3M's annual revenue of US$30 billion comes from products introduced in the past 5 years.

Innovation insights at 34th National Conference

The 34th National Conference of Chartered Accountants provided a number of important insights into the process of innovations that helps companies gain an edge in an increasingly competitive marketplace.

The conference was inaugurated at Water's Edge, Battaramulla by Chairman of Maruti Suzuki India Limited, R C Bhargava in the presence of the country's 'corporate glitterati' including business leaders, top government officials, accounting leaders and foreign panelists.

The conference organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), was further boosted with a high profile keynote speech delivered by Hon. Ruth Richardson, former finance minister of New Zealand.

The conference explored an inspiring and relevant theme 'Innovate to Grow' during two days of technical sessions conducted by a versatile team of foreign and local panelists who delved in detail on the importance of bringing in innovation to ensure sustainable growth.

The inaugural session on 25th October focused on 'Innovation in Action', with a presentation by Rohan Pallewatte, Executive Chairman of Lanka Harness Co (Pvt) Ltd., while the panelists were B R L Fernando, Chairman of CIC Holdings and Prof. Ajith De Alwis, Project Director of the Coordinating Secretariat for Science Technology and Innovation (COSTI) Sri Lanka.

Dr. Young-Tzung Shih, Senior Manager of the multinational 3M's Corporate Research Laboratory, Singapore, made a presentation on 'Leading Innovation' in the second session at which the panelists were Jayantha De Silva, Vice President of IFS South Asia and Managing Director of IFS Sri Lanka and Deepal Sooriyaarachchi, Commissioner of Sri Lanka Inventors Commission.

Samantha Kumarasinghe, Chairman/Managing Director of Natures Beauty Creations Ltd., gave a presentation on 'Conquering New Markets' in the third session. Panelists of this session were Sheamalee Wickramasingha, Group Managing Director of Ceylon Biscuits Limited and Dinesh Saparamadu, Chief Executive Officer of hSenid Software International (Pvt) Ltd.

'Creative Social Networking' was the focus of the fourth session where Dr. David R Hardoon, Associate Director (Advisory Services Advanced Analytics) of Ernst & Young (Pvt) Ltd., Singapore, made a presentation. Rohan Jayaweera, Sri Lanka Country Consultant for Google Asia Pacific and Earl Bumotad, Digital Consultant of Momentus (Pvt) Ltd. were the panelists for this session.

Adrian Perera, Chief Executive Officer of RAM Ratings (Lanka) Ltd., discussed how to 'Manage Risks in Innovation' at the fifth session. The panelists were Krishan Balendra, President (Retail) of John Keells Holdings (JKH) and Deepthie Wickramasuriya, Head of Business Systems & Services of AHL Business Solutions (Pvt) Ltd., and Goodhope Asia Holdings Ltd.

The sixth and final session focused on 'Service Innovation' where a team of panelists offered their insights on the importance of service innovation. They were Reeza Zarook, Chief Executive Officer of Anything.lk, Asite Talwatte, Managing Partner of Ernst & Young, Dr. Parakrama Dissanayake, Chairman/CEO of Aitken Spence Maritime Logistics & Cargo, Hiran Cooray, Chairman of Jetwing Hotels, Dushan Soza, Managing Director of WNS Global Services (Pvt) Ltd., and Manohari Abeyesekera, Head (Strategic Business Development Unit) of Hayleys Group.

Update

34th National Conference

Entrepreneur shatters work ethic myth


ROHAN PALLEWATTA

US$38 million
Lanka Harness annual sales

$8 million
Investment in factory

When Rohan Pallewatta wanted to start making impact sensors for automobile airbags and seat belts for Toyota there were many who told him it would not work as the work ethic of local labour was not good enough to meet the Japanese firm's quality standards. "For sensors, the uniqueness is the quality requirement - only a single defect is tolerated for a million produced because on impact the airbag must come out - it cannot fail," Pallewatta, Executive Chairman of Lanka Harness Co (Pvt) Ltd., explained.

"When I embarked on this journey I was told by many people that with the existing work ethic of this country, this level of quality was not possible." The quality requirement is 1-PPM, meaning only a single defect would be tolerated for a million produced.

But he was not deterred, instead being inspired by the island's ancient irrigation works and other historical monuments that indicated workmanship of a high order. "Looking at these great monuments, I thought that the DNA for high quality workmanship was in our people," Pallewatta told the technical sessions of the 34th National Conference of Chartered Accountants organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) held in October on the theme 'Innovate to Grow'.

At the inaugural session on 'Innovation in Action', focusing on the evolution of the manufacturing sector, Pallewatta held the audience of 1,200 participants spellbound with his tale of would-be vagabond to world-class manufacturer supplying car manufacturing multinationals across the globe.

"I felt that all it needs is the right leadership to rekindle this DNA," he recalled, relating how he embarked on and grew his business which today has annual sales of US$38 million. His was the first Sri Lankan firm to enter the international market with a 1-PPM quality product.

"Most barriers are psychological," Pallewatta stressed describing several breakthroughs in sports such as running the mile under four minutes and the high-jump technique known as the 'Fosbury Flop' that initially were considered unachievable or met with resistance but are routine and accepted today.

"There must be people with the guts to defy convention. So when you embark on something new, this (resistance) is what you encounter," he explained, noting the need for entrepreneurs to be innovative, go against convention and persevere to succeed.

Pallewatta's education and route to auto parts manufacturing was unconventional. He is an Attorney-at-Law by profession who also holds a B.A. (English Special) from Kelaniya University and a MBA from the University of Sri Jayewardenepura.

A one-year scholarship to Japan after his Ordinary Level exam enabled him to master the language (having sat for the university entrance exam there). When he failed to qualify for Sri Lankan university entrance in his first Advanced Level attempt, he switched subjects and offered Japanese in his second shy as the paper was so elementary, being the grade 1 paper for Japan. Selected to Kelaniya University to do languages, he found the campus closed owing to student unrest. "The only institute doing academic work was the Law College," Pallewatta recalled. "So not wanting to be a vagabond I sat for the Law College entrance exam and was placed 6th in the island. That's how, accidentally, I became a lawyer."

Pallewatta got his business idea on a visit to a Toyota factory during his student cultural exchange scholarship. Struck by the degree of automation of most of the plant's manufacturing operations as well as the labour-intensive nature of work at one site making impact sensors for air bags, he was told, upon inquiry, that the latter was one process that could not be automated. Finding the workers' wages also high (the equivalent of Rs150,000 - 200,000), Pallewatta proposed shifting the work to a labour-abundant country. Toyota, he was told, would never entrust critical safety gear manufacture outside Japan. He returned home having persuaded Toyota to give him a few samples, which, years later, he dismantled, studied and then reproduced, despite not having an engineering or electronics background. Repeated shipments of samples to Toyota for many months yielded no response. It turned out he did not understand Toyota's manufacturing policy - it was an assembly plant, putting together cars with parts made within the country by licensed parts suppliers. Pallewatta tried again, this time with the auto parts suppliers, sending samples for another year without any success.

One fine day when he returned from Law College lectures he found a long fax from a firm saying only two out of 10 samples were acceptable, and giving a defect analysis report on the others. Pallewatta was very happy, immediately rectified the mistakes and sent more samples. This time the reply was swift - eight out of 10 were acceptable - and a defect analysis report followed. Pallewatta kept on trying and gradually built up more and more orders, eventually seeking the help of an existing industrial manufacturer, Siri Samarakkody, when the orders became too big to handle alone. Subsequently he persuaded his Japanese partner to invest and build a plant in Sri Lanka. Lanka Harness was set up in Biyagama in 2003 as a group firm of Ito-Spring Co., a Japanese parts supplier. The initial investment of $8 million was recovered within two-and-a-half years.

Some learning outcomes

Ups and downs are part and parcel of life. There's no straight line to success

Organizations measure innovation not by their scientific or technological success but by market success

Don't be a slave to the academic or professional qualification you have. You might grasp innovative ideas outside your field

Finding and realising the potential of a business is psychologically difficult - it will always be opposed from within as it means breaking away from old, established habits

You cannot innovate and relax, thinking your innovation might pave the way to eternal success - new knowledge makes it obsolete

Successful innovators are not necessarily always risk-takers

Size matters - of the idea, opportunity

Innovation for relatively smaller economies like Sri Lanka is a wonderful opportunity for growth, says The Honorable Ruth Richardson, former finance minister of New Zealand.

"It's not just the size of the country that matters, it's the size of the opportunity and the size of the idea being applied," she declared in her keynote speech at the national conference of the Institute of Chartered Accountants of Sri Lanka.

The underlying message of the overall address was that the engine of growth for a country should not lie with the respective governments but with the individuals who are making decisions impacting their business on a day-to-day basis.

Furthermore, the perception that innovation is viewed as something only affecting the internal environment of a country is incorrect.

Innovation surpasses boundaries and therefore borders don't matter in the current globalized environment, Richardson said. Elaborating on this point, she related how during a vacation in Ireland she noticed that mussel farmers use rope manufactured in New Zealand as that particular rope was able to increase their productivity by 10 times.

While we all may know human capital and financial capital, Richardson believes that going forward, creative capital will be just as important as the other types of capital.

Among the essentials of ensuring creative capital for a country is 'smart' public policy for which a major cultural shift is required in how businesses and government function with regards to each other. Another is free trade and Sri Lanka has shown promising signs in this respect with the signing of several free trade agreements with major economic powers.

Update

18th Annual Tax Oration

Fiscal policy not only about taxation - Cabraal

Accountants need to have better appreciation of fiscal policy as they will play an increasingly important role with Sri Lanka steadily moving towards becoming a US$ 100 billion economy, Central Bank Governor Ajith Nivard Cabraal said.

Fiscal policy is the framework implemented by the government to influence economic activities via the allocation of resources towards achieving the overall goals of stability and growth, he declared during the 18th Annual Oration of the Institute of Chartered Accountants of Sri Lanka organized by its Faculty of Taxation.

"This policy framework is mainly implemented through the Ministry of Finance, with the traditional policy tools used for this purpose being taxation, government expenditure and borrowing, and debt management."

Cabraal, himself a Chartered Accountant, spoke on the theme "Harmonizing Fiscal and Monetary Policies to Deliver Stability and Growth".

He described monetary policy as the means by which a central bank seeks to achieve macro-economic stability using a range of instruments to deliver economic and price stability and financial system stability.

"Financing of the budget and debt management has monetary implications, while the composition of debt instruments, the timing of debt issues and their maturities, has a close relationship with both fiscal and monetary implications," Cabraal said.

"We need to understand that fiscal policy is broader than taxation. Therefore, perhaps the next post-budget seminar of the Institute should attempt to convey this position so that the popular misconception amongst many Chartered Accountants that 'fiscal policy is only about taxation' is removed, thereby encouraging accountants to focus on fundamental fiscal philosophies and implementation methods."

A greater appreciation of the entirety of the fiscal policies would enable Chartered Accountants to pay more attention to the wide range of subjects encompassing fiscal policy, so that their knowledge and ideas in this field could be regularly harnessed for the benefit of the country at large.

Cabraal said he sees the accounting profession playing an increasingly significant role given their expertise in accounting, auditing, taxation, information technology, financial management, banking, planning, financial analysis and project management.

"The skills that they possess in finance, planning and business are also varied, and hence they could play a very important role in many spheres of public and private enterprise of our country."

He believes the education, training, and professional skills imparted by the Institute of Chartered Accountants of Sri Lanka, had a major role in his being appointed as Central Bank Governor.

Government revenue (as % of GDP)

1980 = 20.2%
2010 = 17.2%

Government current expenditure (% of GDP)

1980 = 24%
2010 = 16%

Tax to GDP ratio

1980 = 19.1%
1998 = 14.5%
2011-13 = 13-15%

Lakmalee Nanayakkara Memorial Oration

Ethical tax advice can reduce evasion

The government does not want to over-regulate tax enforcement and it is the responsibility of tax consultants to make the department passive and taxation simple, Secretary to the Treasury Dr. P.B. Jayasundera said.

The government wishes to see self-compliance and not manipulated-compliance, Jayasundera declared, delivering the first Lakmalee Nanayakkara Memorial Oration titled 'The Contemporary Policy Thrust of Taxation and Fiscal Policy in Sri Lanka'.

"The best respect that can be given by tax consultant colleagues to Lakmalee is to benchmark her professional standards and ethics," he said.

"Through correct advice respecting such standards, a fair share of revenue that is evaded due to so-called tax consultancy services can be recouped and a considerable improvement in tax revenue can be brought about even during this transitional period of tax reforms."

The successful operations of an efficient tax system require a tax payer-friendly tax administration, tax audits, tax consultants with respect for ethics and an effective tax dispute settlement mechanism.

The government had embarked on a new taxation regime and the success of reforms also depends on the role played by private sector stakeholders - in particular the accountants and tax consultants who are engaged in the process, Jayasundera said.

The present level of government revenue, which is below the lower middle income country average rate ranging between 16-18% of GDP, needs to be improved.

"It is necessary to create a taxation policy and an administrative environment which will generate revenue that is commensurate with the nominal growth in GDP. In other words, the tax system needs to be revenue elastic," Jayasundera said.

"It will provide adequate liquidity in relation to Treasury operations to facilitate budget execution and iron-out payment delays. It will enable the government to finance a share of government investments from the government's own savings through a revenue surplus."

Such a surplus creation will reduce both domestic and foreign borrowing needs and thereby lower interest rates as well as interest costs of the budget, helping to consolidate a low interest policy regime.This will give greater freedom to the monetary authority to conduct monetary policy as well as to promote system stability in the banking system as the regulator of banking and financial institutions, Jayasundera said.

Extraordinary personality whose expertise policymakers sought

Lakmalee Nanayakkara was a Partner and Head of Tax at Ernst and Young, the first woman in Sri Lanka to be appointed as a Partner in one of the reputed international accountancy firms.

Her career spanned over 30 years, having started as an accounts trainee in the late 1970s when she was in her mid-20s.

She served as an active member of the Taxation Cluster of the National Council of Economic Development to promote Private-Public Partnership in policy dialogue and served as a member of the Board of Directors of the Bank of Ceylon, while also being a member of its Audit and Management Committee.

She pioneered the process of organising Post-Budget Seminars, soon after every single Budget Speech that was presented in Parliament since 2004, mobilising corporate leaders and professionals in the country to disseminate detailed information on the Budget.

Paying a tribute to Nanayakkara, Dr Jayasundera said: "The best respect that can be given by tax consultant colleagues to Lakmalee is to benchmark her professional standards and ethics."

He said she gave best advice to tax payers and tax administrators and even policy makers sought her views.

"She advised her clients to pay taxes and not to evade taxes. Her advice on tax planning was to get corporates and individuals to understand taxation better and to make proper provisioning in business modelling and management," Jayasundera said. "She never persuaded her clients to dispute taxes or guided them to engage in delaying tactics. In the case of a doubt, she sought clarifications to comply or worked with policy makers to improve the law and regulation to bring about greater clarity."

Update

Annual Reports Awards 2013

Promoting excellence in financial reporting

The prestigious Annual Reports Awards 2013 of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), held for the 49th consecutive year, is a competition that promotes transparency, corporate governance and excellence in financial reporting among organisations in Sri Lanka.

This year's event will focus on the inspiring theme of 'One Destination - Towards Integrated Reporting' which aims to envisage the future of annual reporting on a more global context and help local firms to be on par with internationally accepted standards.

The marking criteria have been changed to accommodate convergence of Sri Lanka's financial reporting framework with the International Financial Reporting Standards with effect from January 2012.

Held since 1964, the Annual Report Awards has been a platform which encourages excellence in the presentation of information among the country's diverse business entities in the field of financial reporting.

It also enlightens the managements of companies on evolving global trends in annual reporting and encourages them to adopt best practices that match those of their global counterparts, helping improve the information efficiency of capital markets.

Registrations for the 2013 competition kicked off mid-August.

The competition is open to any organization that produces an annual report, from multinational companies to small time community groups.

This year's competition will see awards being presented under 23 special categories with each category consisting of a winner, together with a first and second runners-up respectively.

Leading credit rating agency, RAM Ratings (Lanka) Limited, will support the CA Sri Lanka Annual Report Awards for the second consecutive year.

Chief Executive Officer of RAM Ratings (Lanka) Ltd. Adrian Perera said RAM Ratings (Lanka) Limited is pleased to associate with CA Sri Lanka's Annual Reports Awards competition for a second time.

"RAM which is the premier and largest credit rating agency in Malaysia, has been in operation in Sri Lanka since 2005 and we believe the CA Sri Lanka Annual Report Awards Competition is a key initiative to position the Sri Lankan corporate sector in the Asian corporate map," he said.

Welcoming RAM Ratings Lanka onboard for the second year, CA Sri Lanka President Mr. Sujeewa Rajapakse emphasized that in its capacity as a leading credit rating agency in the country, renowned for its independent and unbiased views, it was a privilege to have the support of RAM Ratings Lanka yet again.

"Having an organization such as RAM Ratings onboard as the sponsor for the 49th annual report awards is an endorsement of the event's significance," he said.

Business School students commended certificates by Australian University

Two students of the Business School of CA Sri Lanka were recently recognised by the University of Southern Queensland in Australia for their commendable achievements as students who are following the university's MBA programme.

Nadika Mahesh Kumara Rajapaksha and Yauwanaguhan Wigneswaran were awarded highly commended certificates by the University of Southern Queensland (USQ) Partnerships Team after impressing the selection panel with their outstanding results as students sitting for the Master's degree programme and also for being involved in various community related activities.

The two students from the CA Sri Lanka Business School were awarded the certificates alongside seven other students from Malaysia, South Africa, Australia and China.

The USQ MBA which is one of Australia's top 20 MBAs is of world class repute and has been followed by thousands of students both in Australia and outside Australia, with a large number of Sri Lankan professionals including well-established corporate leaders also following the programme since it was introduced to the country by the CA Business School in 2002.

Tribute to four eminent chartered accountants

The Institute of Chartered Accountants of Sri Lanka recently paid a glowing tribute to four eminent Chartered Accountants, in appreciation of their outstanding contribution to uplift the accounting profession, public, private sectors, and society.

At a ceremony held at Waters Edge, Battaramulla, Spencer Esmond Satarasinghe, the only surviving member of the Institute's first Council was decorated with the Lifetime Achievement Award for 2013 for his outstanding professionalism and his dedication to the profession and the institute.

The Institute also honoured Rajan Asirwatham, Parakrama Devasiri Rodrigo and Prof. Lakshman Ravendra Watawala by inducting them to the CA Sri Lanka Hall of Fame in recognition of their services to the profession and the public.

Satarasinghe was a founder member of CA Sri Lanka and was the first Chairman of the Taxation Committee of the Institute. He was also the first Sri Lankan to be elevated to the position of Chairman/Managing Director of a Sri Lankan company of a multinational group - Brooke Bond.

Satarasinghe was a member of the Income Tax Board of Review, Sri Lanka Standards Institution, and Sri Lanka Tea Board. He was a Director of Bank of Ceylon, Insurance Corporation of Sri Lanka and Development Finance Corporation. He was also a Consultant to the People's Merchant Bank, Financial Advisor to the Ministry of Plantation Industries, Chairman of the Agricultural and Industrial Corporation of Ceylon, Janatha Estates Development Board, and Council for Information Technology and Vice Chairman of the Employers Federation.

Additionally he was the People's Bank representative on the Central Bank Committee of Management to investigate Mercantile Credit Ltd.

Among the three chartered accountants inducted to the CA Sri Lanka Hall of Fame, Asirwatham served as the Senior Partner of KPMG till April 2008 in a career spanning over 40 years. He also contributed to the development of the institute through his capacity as Chairman of the Taxation Committee of the institute, where he pioneered several initiatives for the benefit of the profession.

Asirwatham served the State as Chairman, Bank of Ceylon and also as Chairman, Public Enterprises Reforms Commission. He was also appointed to the Presidential Commission on Taxation in 2009.

Rodrigo, a fellow member of CA Sri Lanka, served in various capacities of the institute including as Chairman of the Audit Faculty, Co-chairman of the Sri Lanka Auditing Standards Committee and the Accounting Standards Committee and co-chairman of the Urgent Issues Task Force.

Having commenced his professional career at the Tea Research Institute, he joined PricewaterhouseCoopers in Dar Es Salaam, East Africa in 1974 and its London office in 1980. On his return to Sri Lanka in 1981 he continued his involvement with PricewaterhouseCoopers by becoming a founder partner of its new firm. He retired from PwC in 2006 and has since served on the boards of John Keells Holdings, Ceylon Tobacco Co., Holcim, Chevron Lubricants, Softlogic Holdings and Cargills Bank as a non-executive director.

He was elected as Chairman of the Ceylon Chamber of Commerce in 2004 and in recognition of his expertise in finance and commerce, the President appointed him as a member of the Monetary Board of the Central Bank of Sri Lanka in 2003.

Prof. Watawala served the Council of CA Sri Lanka for 20 years, and was the youngest President of the Institute. He was the founder signatory of the South Asian Federation of Accountants formed in 1984 and its President in 1986. Prof. Watawala was the founder President and steered the Association of Accounting Technicians of Sri Lanka for more than a decade. Subsequently, he founded the Institute of Certified Management Accountants of Sri Lanka of which he currently serves as Founder President.

He served as the Chairman of the Board of Investment and was the brainchild behind the implementation of the 200 Garment Factory programme. He was also the Chairman of People's Bank, People's Merchant Bank, Pan Asia Bank, and Deputy Chairman of Singapore Informatics and was an Advisor to the Ministry of Finance.

Update

Reciprocal membership deal with CPA Australia

The Institute of Chartered Accountants of Sri Lanka and CPA Australia signed a landmark agreement aimed at creating new opportunities for members of both bodies across the globe.

The Mutual Recognition Agreement (MRA) between CA Sri Lanka and CPA Australia removes barriers, allowing appropriately qualified members of each body to apply for membership from the other body, while also allowing for closer collaboration and cooperation between CA Sri Lanka and CPA Australia to further enhance the accounting profession.

CA Sri Lanka President Sujeewa Rajapakse noted that over the years, CA Sri Lanka and CPA Australia have developed a close working relationship aimed at enhancing the accounting profession.

This agreement paves the way for members of both institutes to work across the globe, whilst removing barriers created across borders for members of the accounting profession.

CPA Australia President Penny Egan in her message noted that CPA Australia is one of the world's largest accounting bodies, representing more than 144,000 members across the globe.

"The completion of the MRA will enable us to welcome and provide services to those members of CA Sri Lanka who wish to also become a member of CPA Australia," she said.

CA Calendar

CORPORATE EVENTS

CA Sri Lanka - Elections 2013
20th December 2013
Contact: Wasana

Email: secretariat@casrilanka.com

CPD EVENTS

Management practicalities of delivering your business strategy
Workshop with Alan Fell, Managing Director, Alan Fell Consultancy Ltd., UK
30th January 2014
Contact: Nuwan

Email: nuwan.dishan@casrilanka.com

Seminar Series on Demystifying Enterprise Resource Planning Implementation
23rd Thursday, 28th Tuesday, 30th Thursday of January, 6th Thursday, 11th Tuesday and 13th Thursday of February 2014
Contact person: Crisle

Email: crisle.perera@casrilanka.com

Nine top organisations as strategic level training partners

Nine top organisations hailing from both the public and private sectors of the country were recently awarded Strategic Level Training Partner status by the Institute of Chartered Accountants of Sri Lanka.

The nine organisations representing diverse sectors included: Delmage Forsyth & Co. Ltd., JF & I Packaging (Pvt) Ltd., Lalan Rubbers (Pvt) Ltd., Lanka IOC PLC, Millennium IT Software (Pvt) Ltd., Plantation Human Development Trust, Printcare PLC, the Securities and Exchange Commission of Sri Lanka and Union Bank of Colombo PLC

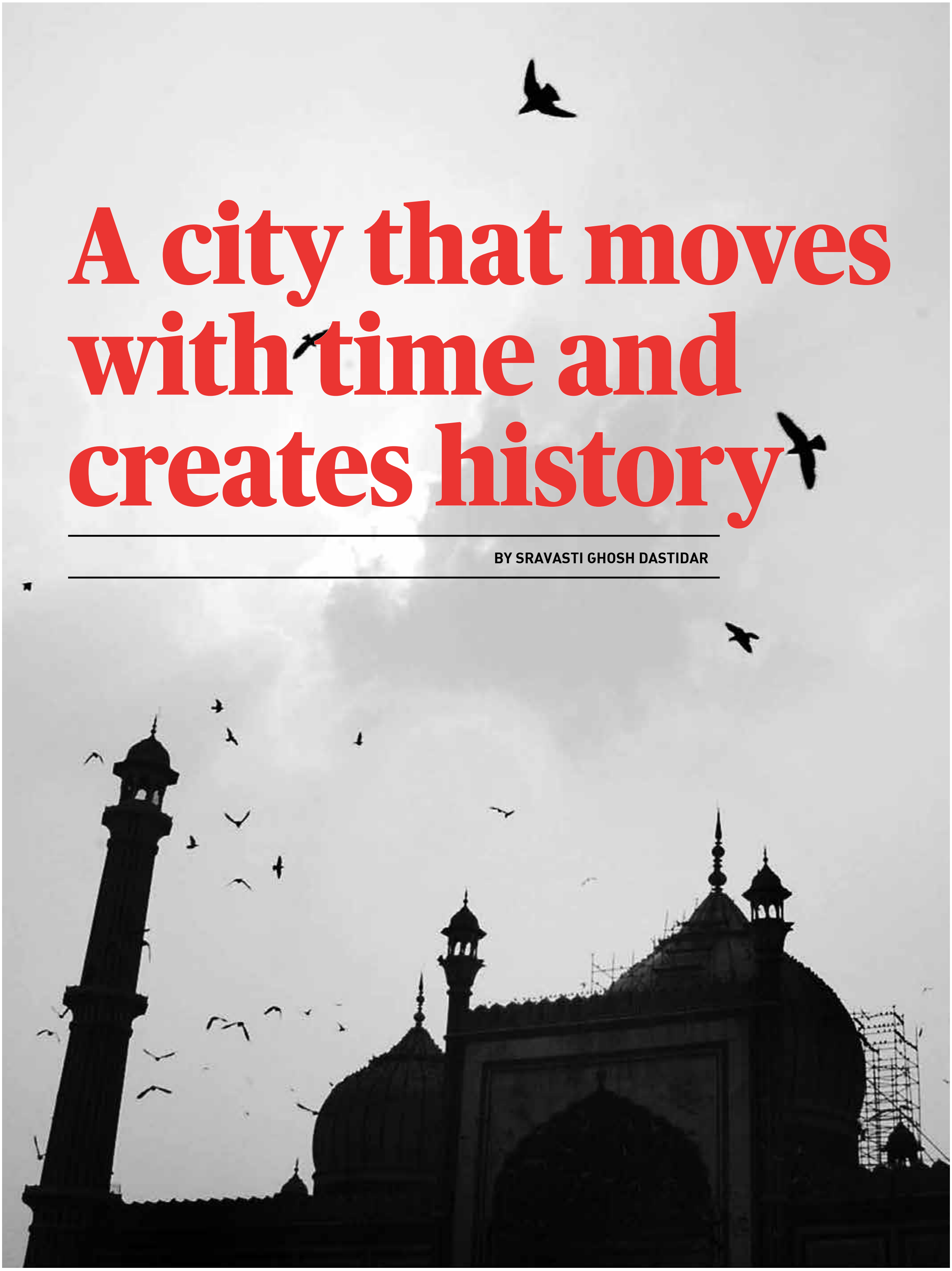
CA Sri Lanka Vice President Arjuna Herath, who awarded the training partner certificates to the companies, underscored the vital role played by training partners in creating quality and competent chartered accountants.

He also emphasized the various initiatives taken by the institute to continue to offer a very globally relevant curriculum to the students of CA Sri Lanka. Herath added that the upcoming CA Curriculum 2015 will ensure the creation of more proficient chartered accountants in the coming years.

Life

A city that moves with time and creates history

BY SRAVASTI GHOSH DASTIDAR



Delhi is one of the world's oldest capital cities and known as the epicenter of Indian cultural renaissance, with a breathtaking variety of architectural styles and historical monuments. But it is not a city trapped in history, instead moving with time. Recent additions to the skyline, moving away from traditional designs ensure Delhi's place amongst the world's foremost cities.

As I watch the Hindi film 'Madras Café', in a puny cinema in Colpetty, my mind roams the larger world of politics and countries - the world of elections, strategies and the dangers courted by politicians to wrest power. Power, which will propel them to the coveted thrones, from where they will rule their constituencies, their states, their countries, or maybe the world.

The film takes me to the seat of power of my country, India, where the general elections are just months away - to the stupendous city of Delhi. Inhabited continually from the 6th century B.C., how many cities in the world can boast of being the capital city for myriad dynasties, rulers and parties? How many metropolises can match the number of times Delhi has undergone captures, plundering and been rebuilt over the centuries? It has even been a part of mythology, a part of one of the most intriguing epics of the world - the Mahabharata.

Known as Indraprastha, the legendary capital of the Pandavas Delhi has, time and again, reinvented herself as the major political, cultural and commercial capital of India, especially during the medieval period. Different historical periods had different names for this city - Indraprastha, Hastinapur, Lal Kot, Qila Rai Pithora, Dilli Sultanate, Shahjahanabad and Lutyen's Delhi. It was the link between Central Asia, the northwest and the rest of the country but not the hot seat of power till the Muslim rule started.

Its metropolitan area comprises a number of cities including Old and New Delhi, for which it is often called the City of cities. It has been the epicenter of the Indian cultural renaissance, resulting in the fusion of Indo-Muslim cultures evident to date in the architectural remains, arts, music, literature, religion and clothing.

Though Old Delhi had been the capital for the Muslim rulers, the British preferred to rule from Calcutta (now Kolkata) till King George V founded New Delhi in 1911. Lord Irwin inaugurated it as the new capital in 1931. The famous British architects, Sir Edwin Lutyens and Sir Herbert Baker, designed New Delhi. After independence, the 1982 Asian Games acted as an important catalyst in the makeover of the city in its current avatar.

I have seen New Delhi developing rapidly since my first visit in 1991. Being the capital city of an emerging economy has also helped in its transformation, more than any other city in India. Every visit brings new sights and sounds to the senses, new roads, flyovers, expressways, hotels, malls and buildings. The Metro or the underground rail service being the latest addition since the Commonwealth Games held in 2010. International games and conferences do play a significant role in the revamping of cities, all over the world, don't they? Development and beautification take place at jet speed during these times.

What have, however, remained constant are the historical monuments, in and around the city, as witnesses of Time and its games.

If there is anything that draws me to Delhi, apart from the delectable Punjabi and Mughal cuisines, is its history and architecture. A story - so intrinsically intertwined with the history of the country. The Delhi chronicle dates back to the second millennium BC. It was a city of cities even in those days, as remains of eight major cities have been excavated in Delhi.

Wandering through Delhi's streets and alleys, I remember lines from the 18th century Urdu poet Mir Taqi Mir – 'Koochey nahin dilli ke, auraaq-e-musawwir hain / Jo shakl nazar aayi, tasveer nazar aayi. (These are not Delhi by-lanes, these are artist's canvas / Every sight I see looks like a painting)

What have, however, remained constant are the historical monuments, in and around the city, as witnesses of Time and its games.

DELECTABLE PUNJABI AND MUGHAL CUISINES ARE AMONG DELHI ATTRACTIONS ALONG WITH ARCHITECTURE; REMNANTS OF A BYGONE ERA - THE HAUZ KHAS (ROYAL TANK) WHICH A WATER TANK, MOSQUE AND A TOMB

Modernity has robbed Delhi of many of its painting-like streets, yet I chance upon architectural jewels, neglected by popular travel journals informing about the treasure chest that is Delhi. There are ancient ruins in almost every corner.

I stroll into an inconspicuous lane off Haileys Road and find one such gem, right in the heart of the political centre of Delhi. It is an incredibly structured step well - 60m long and 15m wide with 103 steps and four levels, three of which are visible. The fourth level is usually submerged in water. Each level is lined with arched niches on both sides, which served as cool retreats during the scorching summers. Now, they are inhabited by pigeons and frequented by lovers. It is called Agrasen or Ugrasen ki Baoli (Ugrasen's step well) and might have been built by a legendary king Agrasen, during the Mahabharata period and rebuilt in the 14th century by one of his descendants of the Agrawal community. Though constructed by a Hindu family, it has a rare Tughlaqi architecture and there is also an unused mosque in the premises.

I also find remnants of the bygone eras in the Lodhi Gardens, the posh Delhi Golf Club and the Hauz Khas (the Royal Tank). The Hauz Khas has a water tank or lake, a mosque and a tomb belonging to Alauddin Khilji's reign. It has the Hauz Khas village which houses boutiques of well-known fashion designers, restaurants, bars, pubs and cafes.

When I venture into the busiest and oldest market in Old Delhi, Chandni Chowk (literally moonlit square or market) housing approximately 2,500 shops, I am struck by the colours of history seeping through the walls of the buildings. Built during Shah Jahan's rule, the Chowk stands at the crossroad of cultures where tradition and modernity jostle with the multitudes that throng the market.

India's largest mosque - the Jama Masjid (1650 AD.), the Lahori Darwaza or the Lahore Gate and the Hazrat Nizamuddin Dargah where mesmerizing qawali is performed every Thursday evening, are dominating features of this congested bazaar.

Along with mosques and dargahs in Chandni Chowk, I discover the Sri Digambar Jain Lal

INDIA'S LARGEST MOSQUE - THE JAMA MASJID (1650 AD)

Temple (1656 AD), the Hindu Gauri Shankar Temple (1761 AD), Sikh Gurudwara Sish Ganj Sahib (1783 AD) and the Central Baptist Church (1814 AD). What an amazing amalgamation of architecture and religions!

What could have brought about this vast array of architectural splendours, spanning over centuries?

Ruled by the Hindu Tomar Rajputs and Chauhan Rajputs 736 to 1192 A.D, Delhi was won over by Mohammad Ghori, the harbinger of Muslim rule in India. After the Ghoris, the Slave Dynasty under Qutub-ud-din Aibak took over. Then on, commenced Delhi's march towards prominence. It retained the status of the capital city for subsequent dynasties of the Khiljis, Tughlaqs, Lodhis, Suris, and the Mughals. While the later Mughals were seated on the throne of Delhi, the British ruled India from Calcutta (1757-1911). Delhi won the favour of the British, post-1911.

Independence, in 1947, led to the rule of political parties and saw a different face of elected dynastic rule. The Indian National Congress, Janata Party, Bharatiya Janata Party have occupied the 'throne' during different phases. Time and tide for single-party rule have turned and since 1999, no single party has won the majority, thereby leading to coalition governments.

As the faces of rulers changed, so did the styles of design and architecture. Each ruler had his trademark technique of building, which is quite fascinating.

As the faces of rulers changed, so did the styles of design and architecture. Each ruler had his trademark technique of building, which is quite fascinating. Each ruler wanted to put his seal of authority on this city, for posterity. The best way to do it was by building memorials. It is also interesting to note that many of the Muslim architectural sites were originally monuments built by the Hindu rulers but gained fame under Muslim rule.

Standing tall among the monuments of the pre-Mughal era, is the red sandstone and marble structure of the Qutb Minar built by the Slave Dynasty, on the ruins of Lal Kot Fort of the Tomars. It is the world's tallest freestanding brick monument. It is a pleasure to be within the premises during

JAMALI KAMALI MOSQUE (ABOVE) AND THE RED SANDSTONE AND MARBLE STRUCTURE OF THE QUTB MINAR BUILT BY THE SLAVE DYNASTY (LEFT)

sunset, with flocks of parrots resting on the niches and carvings of the monument and the ruins around it, before retiring for the day.

The construction of this victory tower marked the end of Hindu kingdoms in North India and the beginning of Muslim rule. The Qutb complex initially had twenty-seven Hindu and Jain temples, which were destroyed, and the material was used to build the minar. Qutubuddin Aibak and Iltutmish, Firoz Shah Tughlaq, Allauddin Khilji and even the British have added to this complex, which remains surrounded by the Jain temple ruins.

Tughlaquabad, Firoz Shah Kotla, Humayun's Tomb, Safdarjung's Tomb, and the Lodhi Gardens – all belong to the golden age of Islamic architecture in India.

The Mehrauli Archeological Park is an honest attempt to preserve these invaluable structures. It consists of over 100 historically important monuments under its wide umbrella. Alauddin Khilji's Tomb, Tomb of Quli Khan, the Jamali Kamali Mosque, the Tomb of Balban and Rajan ki Baoli are some of them.

Although the 17th century Red Fort or Lal Qila (Old Delhi) is more famous, the Old Fort or Purana Qila (New Delhi), situated on the banks of the river Yamuna, is the oldest known structure in the city. Arguably, the Pandavas constructed it. It later became Humayun's capital but was wrested from him by Sher Shah Suri. Made of red and buff sandstone, the Purana Qila is an outstanding model of secular architecture with seamless blend of Rajasthani and Lodhi styles. The mausoleums are octagonal in plan and have verandahs around them, surmounted by huge domes. The verandahs have three smaller domes on each side. Legend goes that the fort was unlucky for its occupants as Humayun, Sher Shah Suri and Hemu had very short stints when they ruled from the fort.

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Akbar shunned Purana Qila and Shah Jahan built the octagonal Red Fort with red sandstone, instead. Every year, the current head of the ruling party, our Prime Minister, hoists our national flag from the Red Fort, on Independence Day. The Lal Qila is a synthesis of Persian, European and Indian art forms that was known as the Shahajahani style, an offshoot of the Mughal style.

Mughal architecture is an amalgamation of Islamic, Persian, Turkish, Byzantine and Indian architecture. Few of the buildings erected by Babur, the founder of the Mughal Dynasty, have survived. Akbar's reign witnessed a vigorous growth in the construction of buildings. However, apart from Humayun's Tomb, most of the monuments of Akbar's era were in Agra. Mughal architecture reached its zenith during Shah Jahan's reign and started its decline from Aurangzeb's rule.

This style is broadly characterized by the pre-dominant use of 'Iwans' or vaulted space enclosed by three walls and an opening, one or multiple domes, arches, calligraphy, gardens, fountain and pools - all laid out in perfect symmetry. Sometimes, the buildings had equal numbers of minarets, arches and pillars. The pools and gardens were, often, designed in a similar style, creating a mirror-like effect.

Hindu architectural influence can be seen in the carvings and decorations on the structures. Motifs of flowers were commonly used in Hinduism. So, the flower-inspired inlaid decorations and minarets that look like stalks of flowers were definitely the result of Indian influence. The grooves in the arches signify influence directly taken from older structures in India as opposed to bump-free curves of the Persian style.

If Mughal architecture had borrowed elements from the Hindu designs and if many of the Islamic structures were built on ruins of Hindu monuments, then there must be some brilliant specimens of Hindu engineering, too.

The rust and corrosion-resistant Iron Pillar, in the Qutub complex, is an exquisite example of scientific craftsmanship. It belongs to the Hindu Gupta Dynasty (320 – 540 AD) and may have been originally located elsewhere. The red terracotta Jantar Mantar, built by Maharaja Jai Singh of Jaipur in 1724, is an observatory consisting of 13 architectural astronomy instruments dominated by a huge sundial. The Gurudwara Bangla Sahib with its gold onion domes and large water tank was built on the site where the eighth Sikh Guru Harkishen Dev had stayed in 1664.

The British were not far behind in stamping their style on the soil of Delhi. They planned and established an entirely new city, that of New Delhi. It was designed to be a symbol of British power and supremacy, and therefore, constructed in the British Classical or Palladian style, fused with elements from other indigenous sources.

New Delhi is structured around two ceremonial promenades called the Rajpath (the King's Way) and the Janpath (the People's Path). The Rajpath is similar to the Champs-Elysees in Paris. This stately boulevard lined by lawns, canals and trees, flanked by the North and South Blocks of the New Secretariat, leads to the highlight of English architecture - the Rashtrapati Bhavan or the President's House which has 340 rooms. The Mughal Gardens in the Rashtrapati Bhavan is a visual treat of Mughal and English landscaping styles and is open to the public in February and March.

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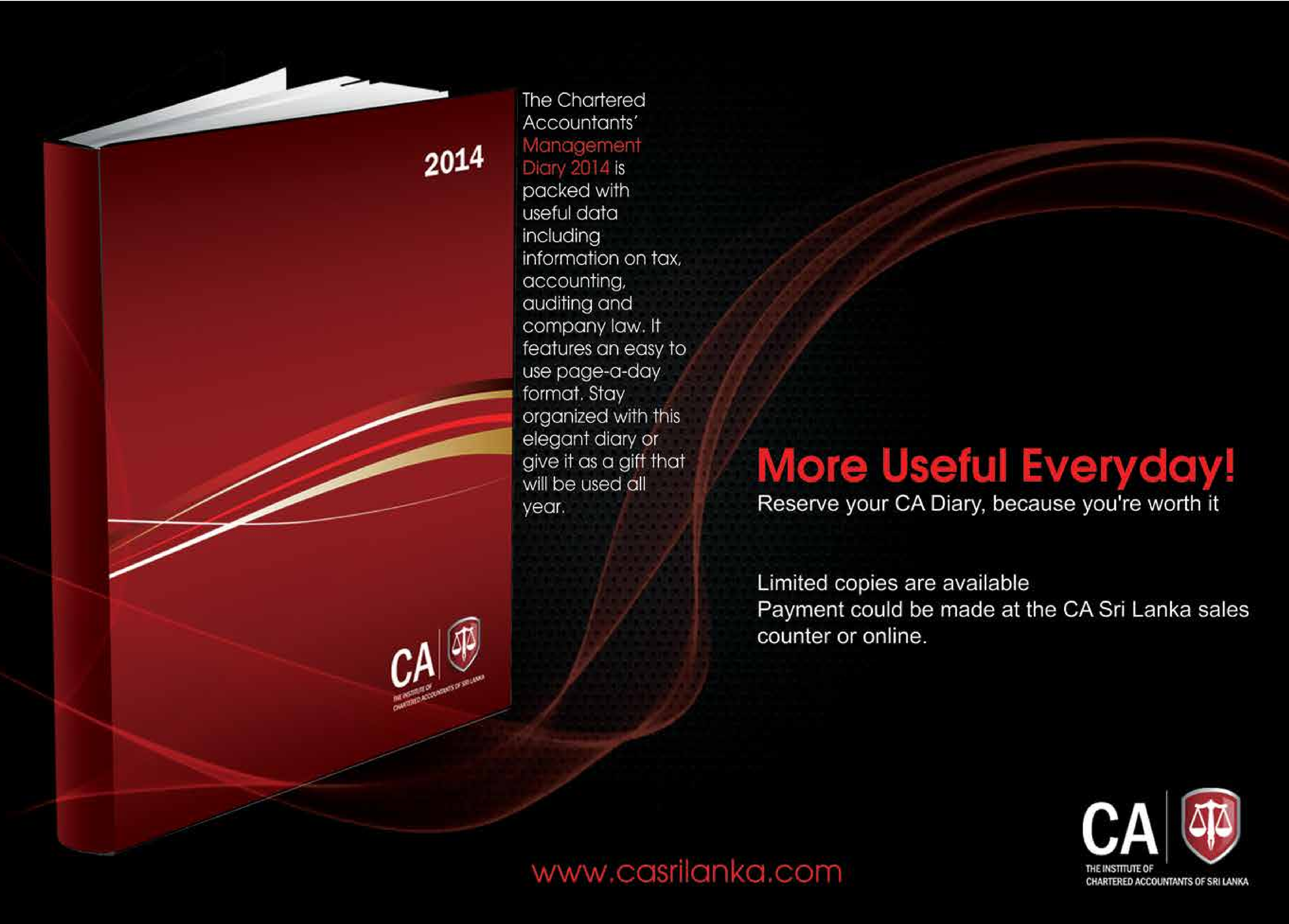
The India Gate (inspired by the French Arc de Triomphe) – a sandstone memorial in honour of the Indian soldiers killed in World War I, the Teen Murti Bhavan - where our first Prime Minister Pt. Jawaharlal Nehru resided, Hotel Imperial - where Pt. Nehru, Mahatma Gandhi, Jinnah, and Lord Mountbatten met to discuss the partition of India and the birth of Pakistan, Connaught Place - the commercial centre, and the cream and red sandstone circular structure of the Parliament House or Lok Sabha, are a few of the buildings belonging to the Colonial Raj. The Lok Sabha is also the House of Power from where our elected politicians debate on the country's policies, not always amicably.

Post-independence Delhi has seen the construction of the Supreme Court, the National Museum, Bahai Lotus Temple, Chanakyapuri or the diplomatic enclave, the institutional buildings like the Krishi Bhavan, Udyog Bhavan and the State Houses. These were built with rough-hewn stone, brick and plasters, keeping in mind the durability, cost and ease of maintenance, yet the designs are in step with the traditional Indian motifs and the current modernist theories of form and function.

The stone, steel and mirror structural buildings like the Vikas Minar, the Pragati Maidan, the National Crafts Museum, the LIC building, etc., designed by new-age architects like Charles Correa and Tor Russell, are more in line with Ayn Rand's Howard Roark style. The recent additions, to the Delhi skyline, have steadily moved away from traditional designs. These and the Metro Railway have ensured Delhi's place amongst the foremost cities of the world. It is not a city which is trapped in history. On the contrary, it is a city, which moves with time and creates history.

It is difficult to isolate the buildings of Delhi from its rulers. It is more difficult to separate rulers from power and their thirst for more power. In the bid to show authority, some rulers build monuments (and nations), some destroy, and some rebuild on destruction. I wonder who will be in power next; and what he or she will build – some memorial buildings and statues and/or a balanced, humanitarian and corruption-free nation? ■



2014
The Chartered Accountants' Management Diary 2014 is packed with useful data including information on tax, accounting, auditing and company law. It features an easy to use page-a-day format. Stay organized with this elegant diary or give it as a gift that will be used all year.
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