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INTELLIGENCE & INSIGHT FROM CA SRI LANKA

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Caution - good trait *for* Accountants:

Asoka Pieris, CEO, Singer Sri Lanka

CA

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

In the post financial meltdown era, in a world of ever depleting resources and ever increasing demand, it is of utmost importance that we come to grips with the new challenges that are being faced by people around the globe.

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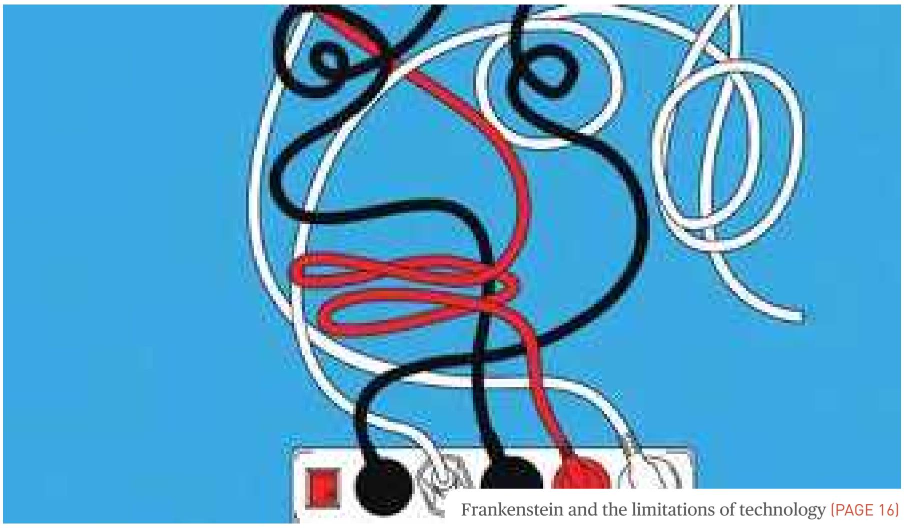

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Intelligence & Insight from CA Sri Lanka

Honing professional skills

Accountants are constantly urged to hone their professional skills and do continuous professional development but a good dose of common sense is vital for those running a business. That's the advice of Asoka Pieris, Chief Executive Officer of the Singer Group in Sri Lanka, a unit of the consumer products multinational, whose insights we offer in our cover story. Caution, he says, is also a good trait for accountants to have.

Colombo is a city that's being redesigned and the bewildering pace at which it's changing and how it will look in future is the focus of our story on urban renewal where we talk to two experts involved in the work.

Our international news section in Periscope comes with a warning to errant accountants who face hefty fines for giving advice on tax dodging schemes.

We continue our series of interviews with experts who attended the recent Financial Reporting for Economic Development Conference in Negombo. They talk about corporate governance, the challenges of Integrated Reporting and of making it truly international and the importance of improving public sector accounting, of getting governments around the world to get better at financial reporting.

And those with a liking for the unusual will enjoy this tale in our travel pages of a visit to a spooky, rocky outcrop in the British Channel Islands.

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

Meeting the demand for greater accountability

Accounting is fundamental for any operation, whether private enterprise, government agency or NGO, to measure, record, and assess the operational results and evaluate whether they operate efficiently and effectively. Its importance to assess the sustainability of these entities and to be accountable for the resources they consume is critical. We, as the primary national accounting body, are relentlessly pursuing efforts to establish strong financial management practices within the country and to ensure high quality credible financial information is produced to fulfill these requirements.

Our efforts include:

- Developing a strong accountancy profession by producing and maintaining competent and capable professionals who adhere to high technical and ethical standards
- Formulation, adoption and ensuring implementation of high quality accounting and auditing standards thus engendering reliable, comparable, consistent, and transparent financial and non-financial information
- Representing and advocating on behalf of the profession and the public, seeking increased awareness of important issues impinging on the profession and public interest
- Providing sound public policy guidance and advice on subject areas relating to the accountancy profession to government, regulators and other stakeholders.

These efforts, consistently benchmarking ourselves with international best practices and standards, have resulted in safeguarding public interest and facilitated financial stability and progress of enterprises. We believe the strong accountancy profession we have created in this country has reduced costs to society and spurred economic development and growth in the country. However, with the evolution of society and the progress the country has made, society is demanding greater accountability.

The Institute and our members have a key role to play in meeting this aspiration and in safeguarding public interest. We are conscious of this role and are making a significant contribution through the services and various roles our members perform in society and through the advocacy role the Institute performs, silently but effectively. This is achieved through influence we have with policy makers and regulators in the areas of Accounting and Financial Management, Auditing and Assurance, Taxation and Tax Policy, and Corporate Governance and Sustainability.

We are also conscious that government contributes significantly to the GDP of the country using resources for which they have stewardship. It is therefore vital that accounting and financial management in the public sector meets accepted norms and international best practices. In this respect we have embarked on several initiatives starting with establishing a Public Sector Wing within the Institute, membership of which is open to accounting and auditing personnel in the public sector including Inland Revenue Officers. We have also established a Public Sector Accounting Standards Committee involving senior officials from the Ministry of Finance and Planning to formulate public sector accounting standards and so far published 10 standards based on the International Public Sector Accounting Standards. We actively participate in capacity building programmes for accounting and financial management personnel and the institutions in which they operate in relation to implementation of efficient and effective accounting and auditing systems and processes, implementation of Sri Lanka Public Sector Accounting Standards, and on Corporate Governance practices. We will very soon create a Specialized Public Sector Qualification which will enable the aspirants in the public sector accounting, auditing and Inland Revenue service to obtain a specialized professional accountancy qualification enabling them to be identified as specialist accounting and financial management professionals in the public sector and be recognized and remunerated as such. We believe these efforts, in addition to acting as a professional prop to government, regulators, and other related stakeholders, will assist the government in improving transparency, accountability and good governance in the delivery of public services.

Arjuna Herath

President - CA Sri Lanka

Periscope

SURPLUS SAVINGS DRIVING DOWN INTEREST RATES

Although prices remain high, especially those of food, interest rates have fallen in recent months. The current slump in domestic interest rates cannot be attributed to the fall in domestic price levels as widely held, given that there's enough evidence to show internal price levels increasing despite the extraordinary reduction in the official inflation indicator.

Instead, it is the surplus savings position of the economy which continues to drag the domestic interest rates down rather than low inflation, says stockbrokers Asia Securities.

At the same time, they point out that the current levels of high domestic prices, especially that of essential food items, do not in any serious way erode the real value of savings of the larger volume of individual savings.

That's because the bulk of the domestic savings springs from the savings of the 10% of the population at the top of the income ladder.

"The real value of savings of the latter segment is quite unrelated with the price fluctuations of the essential food items in the economy and hence is largely immune to increases in essential food prices," the brokers said in a report.

The average weighted prime lending rate has slid sharply in recent weeks while the financial system remains awash with excess liquidity. That's reflected in the notably high net absorption of excess liquidity by monetary authorities.

This drop in the key lending rate in the economy alongside the large volume of surplus savings indicates that the aggregate incomes, and hence savings, are rising relative to investments and consumption growth in the economy.

Asia Securities attributes this to the continuous increase in export receipts and foreign labour remittances along with a moderation in aggregate domestic consumer demand and domestic capital formation.

This makes the total liabilities of the banking system increase at a rate faster than its assets comprised of lending, forcing banks to balance liabilities and assets by resorting to more and more investments in government securities. That's why there's a high level of oversubscription at the weekly primary Treasury bill auctions held by the central bank.

Asia Securities says that this also demonstrates that the Central Bank, rather than determining the rate of interest in the economy, is compelled to adopt the position of the market. "Hence, the Bank's position is governed by the latter rather than by itself."

The Asia Securities report notes that the food prices have increased sharply in the first half of 2014 despite the Colombo Consumer Price Index inflation indicating a sharp reduction. "This can be attributed to the glaringly low base weight assigned to food prices in Sri Lanka's 2006 base year CCPI compared to the peer economies. These peer economies include the price of cigarettes and alcoholic beverages in CPI calculation; however, in Sri Lanka, despite their notable contribution to consumer expenses, cigarettes and alcoholic beverages are excluded in CPI calculation."

The bulk of domestic savings comes from that of the top

10%

of income earners

12.1 percentage points

Difference between base weight assigned for food items in Sri Lanka's CCPI calculation and that of the average of peer economies

The base weight given for food items in Sri Lanka's CCPI out of total consumer expenses is 34.32% compared with 49.71% in India, 56.1% in Bangladesh, 43.96% in Vietnam, 42% in Nepal and 40.3% in Pakistan. The average for these economies is 46.4%.

The relatively lower base weight given for food prices in calculating the CPI tends to undermine the effects of food inflation on headline inflation and tends to reduce it relative to the region, the report says. ■

Gamini Wijesinghe takes charge of SLAASMB

Gamini Wijesinghe, a fellow member of the Institute of Chartered Accountants of Sri Lanka, assumed duties as the second Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) with effect from 16 July 2014.

He counts over 28 years experience at the Department of Inland Revenue, where he was Senior Commissioner, International Tax Policy, attending to all transfer pricing issues before joining SLAASMB.

He was also instrumental in developing the guidelines for tax implications on International Financial Reporting Standards (IFRS). He also has experience in auditing in different audit firms, locally and overseas.

Wijesinghe holds a Bachelor's Degree in Public Administration (Special) from the University of Sri Jayawardenapura and a Masters Degree in Economics from the Kyunghee University, Korea.

SLAASMB is the watchdog body which monitors compliance with accounting standards by entities within its purview and auditing standards by their auditors.

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

Potential for high growth in banking sector

Although the operating environment for the banking sector is challenging, it still has high growth potential, according to Fitch Ratings agency. It has affirmed the ratings on nine of Sri Lanka's banks, all with Stable Outlooks.

"The operating environment, which remains potentially volatile, is a key rating driver for the Sri Lankan banking sector," the rating agency said. This is a challenge for banks, notwithstanding the current high real GDP growth, which Fitch expects to continue.

"While private-sector credit demand is currently muted, the potential for high growth exists given the low overall levels of credit to GDP," it said. "Rapid credit growth - including pawning (gold-backed lending) - in the past raised Fitch's Macro-Prudential Indicator for Sri Lanka into the highest '3' category. The consequence of this was a rise in NPLs in the banking system."

The agency does not expect the deterioration in the banks' asset quality stemming from NPLs from gold-backed lending to persist given the relatively short life cycle of the product.

Fitch has affirmed the Long-Term Issuer Default Ratings (IDRs) on National Savings Bank and Bank of Ceylon (BOC) at 'BB-' and their National Long-Term Ratings have been affirmed at 'AAA(lka)' and 'AA+(lka)', respectively. Fitch has also affirmed the National Long-Term Rating of People's Bank at 'AA+(lka)'.

Fitch also affirmed the Long-Term IDRS of DFCC Bank and National Development Bank PLC (NDB) at 'B+' and their National Long-Term Ratings at 'AA-(lka)'. The National Long-Term Ratings of Commercial Bank of Ceylon PLC (Commercial Bank) have been affirmed at 'AA(lka)'. The National Long-Term Ratings of Hatton National Bank PLC (HNB), Sampath Bank PLC and DFCC Vardhana Bank Ltd. have been affirmed at 'AA-(lka)'.

The IDRs and the National Long-Term Ratings of National Savings Bank and BOC and the National Long-Term Rating of People's Bank reflect the government of Sri Lanka's (BB-/Stable) high propensity but moderate ability to provide extraordinary support to the banks if needed, Fitch said. The ratings on Commercial Bank, HNB, Sampath Bank, DFCC, DFCC Vardhana Bank and NDB are driven by their intrinsic financial strength.

COMPANY REGISTRATION NOW WITHIN TWO DAYS

The Registrar of Companies has speeded up the process of registering new firms. The Department now issues the Certificate of Registration for a Limited Liability Company within just two working days.

Name approvals are performed in just one day. These faster services are made available provided documents submitted by applicants are in order, Rishad Bathiudeen, Minister of Industry and Commerce, told parliament while presenting amendments to the company law, raising fees.

"Our data storage system has also been computerized and upgraded."

He said these latest amendments have been made to meet the current requirement, by focusing on the changes to auditing standards, Sri Lanka Accounting standards and legal framework, and for enhancing the professional quality of registered auditors and recovering government costs.

795
Number of individuals registered as auditors who are members of the Institute of Chartered Accountants of Sri Lanka

569
individuals registered as auditors who are Retired Assessors, Government Accountants, members of the Audit Superintendent Service, and Accounting Diploma holders from Technical colleges

232
Number of Chartered Accountancy firms

43
Number of registered audit firms

274
new auditors registered in the 2010-2013 period

Periscope

BETTER BANK RISK MANAGEMENT URGED

Rs485 billion
BANKS' VOLUME OF PAWNING LOANS IN 2013

75%
OF THE BANKING INDUSTRY'S INCREMENTAL NPLS IN 2013 WERE FROM PAWNING

NPLS IN CONSUMPTION LOANS (INCLUDING PAWNING) ROSE TO 15% IN DECEMBER 2013, FROM LESS THAN 2% IN DECEMBER 2012.

35% PROPORTION OF NPLS OF THE PAWNING BOOK OF SOME SRI LANKAN BANKS TO DATE, FROM LESS THAN 1% AS OF DEC. 31, 2011, ALBEIT ON A DECLINING LOAN BASE.

NET INTEREST MARGIN FOR BANKS HIT A DECADE'S LOW OF 3.2% IN THE FIRST QUARTER OF 2014.

BORROWERS ARE ELIGIBLE TO OBTAIN PAWNING LOANS OF UP TO Rs500,000 AT AN ANNUAL INTEREST RATE OF 15%

Sri Lankan banks should tighten their risk management systems and valuation techniques to prevent a recurrence of a spate of bad loans after gold prices fell, a rating agency has recommended.

"Prudent risk weighting of gold loans in line with international standards is essential to reflect the underlying risk given the surge in NPLs (non-performing loans) in this segment," Standard & Poor's Ratings Services said.

While relatively relaxed regulations in the pawning segment resulted in strong loan growth in 2009-2012, they also contributed to the higher defaults thereafter, it said.

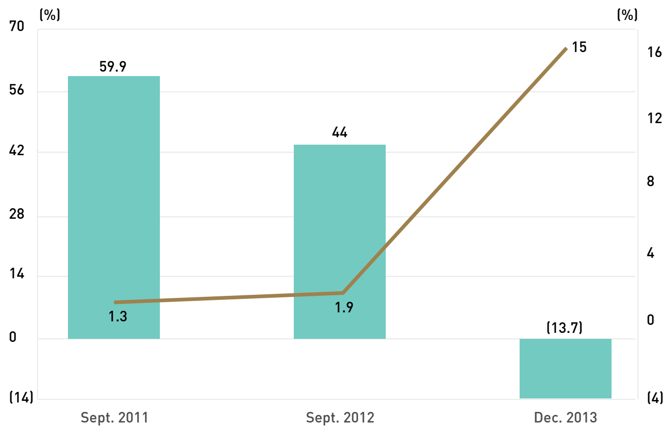
Zero risk weight on pawning loans while calculating regulatory capital ratios and the absence of restrictions on loan-to-value (LTV) ratios encouraged the rapid growth in pawning loans.

"Residual losses on pawning loans may be low, given that the loans are secured, but we think the zero risk weight in Sri Lanka underestimates the risk of price volatility in a commodity such as gold," Standard & Poor's said.

"The zero risk weight also overstates the capital buffers of the banks, which have high exposure to pawning loans, because their capital adequacy would appear higher. In contrast, the risk weight on pawning loans is as high as 125% (after deducting collateral value adjusted for potential volatility in gold prices) in neighbouring India."

Zero risk weights for pawning loans will continue to provide banks an incentive to increase pawning loans without raising capital, it warned.

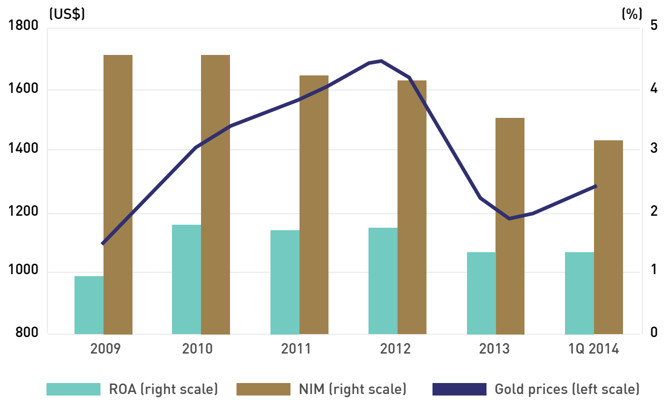
Spike in NPLs following strong growth in pawning loans



* For the rolling 12 months including Pawning NPLs (nonperforming loans)

Source: Central Bank of Sri Lanka

Gold prices significantly impact banking industry earnings

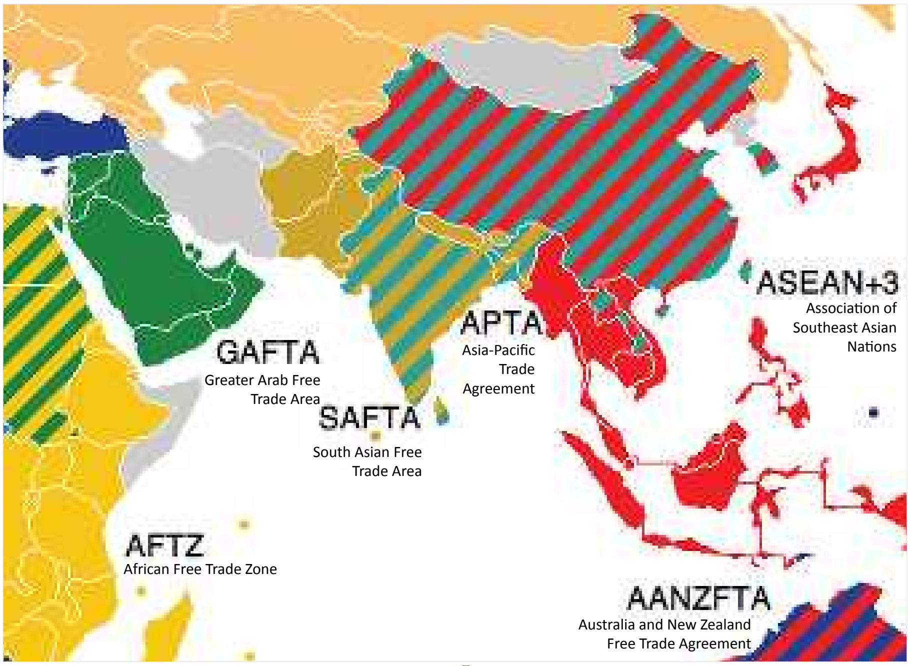


* Gold prices refer to COMEX year-end closing prices. ROA- return on assets (after -tax) NIM-net interest margins.
Source: S&P Capital IQ, Central Bank of Sri Lanka

"Banks may benefit more from focusing on appropriate risk management and tightening their valuation techniques. Local regulations for pawning currently restrict forced selling of pledged gold for 12 months from the date of the pledge. Also, Sri Lankan banks don't make margin calls (call for more funds or collateral when the collateral value has declined below the value of the loan)."

The rating agency also noted that regulation does not require banks to submit the credit history of pawning borrowers to the Credit Information Bureau of Sri Lanka.
"This increases moral hazard and could adversely affect the credit culture, given that default does no harm to an individual's credit history. In our view, it is important to bring pawning-one of the largest loan segments-within the sphere of the credit bureau to reduce this risk."
Standard & Poor's said it believes the central bank's credit guarantee for pawning loans will provide only temporary relief to a banking industry that is still struggling to overcome the effects of declining gold prices.
Pawning loans are typically 12-month loans against personal articles of gold as collateral, and have virtually no restrictions on their end use.
"In our view, Sri Lanka's banking industry will remain vulnerable to the volatility in gold prices, given that pawning loans form a significant part of Sri Lankan banks' loan book, unless essential structural and regulatory changes are implemented."
Standard & Poor's also said most banks still do not hedge gold-price risk because they find it expensive. This is unlike a few large pawning companies in emerging markets, such as Mexico, that use derivatives to manage gold-price risk.
Hedging gold-price risk could be more effective. Also, it might be only marginally more expensive than the cost of the credit guarantee, which the banks will have to bear (about 1% annually of pawning loans). Moreover, the banks can pass on a portion of the hedging costs to borrowers, who would typically not be sensitive to price.

TARIFF REDUCTIONS ALONE INSUFFICIENT TO BOOST REGIONAL TRADE



US$900 billion
Total trade of SAARC member countries with the rest of the world

US$2.9 billion
intra SAARC trade

Despite exports under the South Asian Free Trade Agreement (SAFTA) showing a slight increase, intra-SAARC trade is still far below its potential. Elimination of Non-Tariff Barriers (NTBs) and implementation of trade facilitation are vital to develop this regional trade volume.

"Reduction of tariffs itself is unlikely to bring the expected level of intra-SAARC trade," said Anura Siriwardena, Secretary, Ministry of Industry and Commerce.

"The lack of trade facilitation measures aggravates this situation. The possible gains from trade facilitation in the region are much higher, comparative to the gains from mere reduction of the Sensitive Lists."

The SAFTA Ministerial Council has identified that the successful implementation of the Trade Liberalization Programme is necessary in order to make SAFTA effective, but this too may not be adequate to reach the desirable targets, Siriwardena told a council meeting in Thimpu, Bhutan.

According to the SAARC Secretariat, the total f.o.b. value of exports by SAFTA member states reached close to US$ 3 billion since the launching of the SAFTA Trade Liberalisation Programme in July 2006.

The SAARC Secretariat says that intra-SAARC trade flows under SAFTA are 'far below the potential'.

Siriwardena said SAARC countries are in different development levels and economic conditions and it is important to give due consideration to this reality when preparing modalities to implement trade liberalization programmes and trade facilitation measures. "We could modify SAFTA towards attracting more investments to our countries which would facilitate the establishment of sustainable agricultural, industrial and services sectors. It is a fundamental necessity to intensify intra-regional investment flows for enhanced regional integration. Inflow of foreign investment will also have a favourable impact on exports and imports."

He said it may also help horizontal and vertical integration of industries of SAARC countries, strengthening their competitiveness in the global markets.

Periscope

STUDY SHOWS HOW CEOS CAN USE TWITTER FOR COMMUNICATIONS

32

NUMBER OF COUNTRIES AMONG 161, MAINLY IN AFRICA AND ASIA-PACIFIC, THAT DO NOT HAVE ANY TWITTER PRESENCE.

A new study on the use of Twitter by global leaders and diplomats provides pointers to how the corporate sector can use social media.

Twiplomacy, an annual global study of world leaders on Twitter by Burson-Marsteller, a leading global public relations and communications firm, aims to identify the extent to which world leaders use Twitter and how they connect on the social network.

"Twitter has become a powerful channel for digital diplomacy and 21st century statecraft," said Matthias Lüfkens, Burson-Marsteller's EMEA Digital Practice Leader and author of the report.

"It always amazes me how quickly social media teams, and sometimes politicians themselves, react to direct messages sent on Twitter. Twitter has become one of the most powerful communication tools and provides a direct line to our leaders. World leaders might not necessarily read the tweets addressed to them, but their teams certainly monitor the Twitter activity."

Foreign ministers use Twitter to establish mutual connections which allow for private conversations via direct messages on Twitter.

"This study illustrates that while the number of followers is important, the number of mutual connections is even more important," said Jeremy Galbraith, CEO of Burson-Marsteller Europe, Middle East and Africa and Global Chief Strategy Officer. "It is interesting to see how foreign ministries have created large digital networks on Twitter where not every tweet is approved by lawyers and press officers. Corporations and CEOs can learn a lot from politicians on Twitter, in terms of embracing digital tools for communications and how to connect with peers and influencers."

More than 3,100 embassies and ambassadors are now active on Twitter.

Pope Francis (@Pontifex) is the most influential world leader on Twitter. His Spanish tweets are retweeted on average more than 10,000 times each. In comparison, @BarackObama's tweets are only retweeted an average 1,400 times each, despite his massive following. ■

TAX BASE STILL TOO NARROW

	2011	2012	2013	2014
Savings-Investment balance	-7.8	-6.7	-3.9	-3.5 *Projected*
Revenue	14.3	13.0	12.2	13.1

(in percent of GDP)

The need to improve government revenue by broadening the tax base has again been highlighted by the International Monetary Fund as further cuts in spending to reduce the fiscal deficit might no longer be possible.

Sri Lanka's economic growth has been one of the fastest among Asia's developing economies in recent years, the IMF said in a report after a team visited the island for talks and post-program monitoring.

After falling to 6.3% in 2012, real GDP growth accelerated to 7.3% in 2013 - driven primarily by a pickup in services activity, and supported by manufacturing and construction, but also benefiting from an increase in net exports.

Real GDP growth is expected to remain robust at about 7% in 2014, while inflation is likely to remain in the mid-single digits.

"The short-term outlook appears broadly positive, as Sri Lanka is well positioned to benefit from the global economic recovery and particularly stronger growth in advanced economies," the IMF said.

The government's aim of a further reduction of the fiscal deficit to 5.2% of GDP should allow for even more reduction of public debt. However, the IMF mission raised concerns about the composition of further consolidation, saying that given sizeable investment needs, spending cuts "may have reached their effective limit, and that the burden of adjustment needed to fall more squarely on increasing revenue."

Particularly if Sri Lanka is to maintain current growth momentum and foster economic development and diversification, high and sustained levels of public spending on infrastructure and human capital will be essential.

"Tackling the issue of tax expenditures and broadening the tax base will be essential," the IMF said.

One of the medium-term risks identified by the IMF was continued weakness in government revenues, which could threaten fiscal and debt consolidation objectives.

Others include slower-than-projected growth in the advanced economies, tighter external liquidity conditions and chronic turbulence in international capital markets, negatively affecting debt rollovers and borrowing costs.

However, the IMF noted that Sri Lanka's recent economic performance has been better than expected, particularly given some headwinds from chronic market turbulence and climatic shocks. ■

INTERNATIONAL

ACTIVISTS BLAST OECD PLAN TO END BANK SECRECY

500,000
NUMBER OF TAXPAYERS AROUND THE WORLD WHO HAVE VOLUNTARILY DISCLOSED HIDDEN INCOME AND WEALTH TO THEIR RELEVANT NATIONAL TAX AUTHORITY SINCE 2009, OFTEN TAKING ADVANTAGE OF REDUCED PENALTIES TO TAXPAYERS WHO ADMITTED HAVING OVERSEAS ACCOUNTS

€37 BILLION
AMOUNT OF ASSETS HIDDEN OVERSEAS THAT OECD VOLUNTARY DISCLOSURE SCHEMES HAVE HELPED COUNTRIES IDENTIFY

Despite the size of hidden wealth being revealed in transparency drives, the announcement by the Organization for Economic Cooperation and Development (OECD) of a new financial information exchange scheme has been greeted with scepticism by activist groups.

Although the OECD said more than 65 countries and jurisdictions, including Switzerland, Luxembourg and Singapore, have already publicly committed to implementation of the new standard, with many looking to have structures in place by 2017, other financial centers, such as Dubai and Panama have indicated they will resist any global push for greater transparency.

Response from transparency activist groups were mixed at best, as a number questioned the OECD's commitment to including developing nations in the framework.

While Global Financial Integrity's Heather Lowe welcomed the plan as a "successful and important step forward" she said the "real test will be whether the standards create a functioning and effective system ... and whether that system is truly global, with low income countries permitted and willing to participate."

The Tax Justice Network went a step further in their criticism of the OECD's standard, and accused the organization of missing a "golden opportunity to make a real dent in the fight against corruption and tax evasion."

"Yet again, the OECD has flunked an opportunity to rid the world of the curse of tax havenry," said Tax Justice Network's Markus Meinzer in a statement.

One of their primary criticisms is that developing countries will be forced to collect and provide information – a process that can be prohibitively costly and difficult – in order to take part in the scheme.

Tax havens, on the other hand, will have to provide information but can elect not to receive any in return.

"This does not reflect well on an organization whose membership includes so many of the world-leading tax havens," Meinzer said.

British aid organization Christian Aid was similarly unimpressed, and said the standard as it currently reads not only opened a number of loopholes for tax havens to exploit (including unequal standards for how information is shared), but also neglected to include mechanisms that would make the process easier to implement in developing nations.

"Since the move to automatic information exchange began we have heard rumours that some offshore centers are focusing their attention on developing countries, knowing that they will be/can be excluded from such developments, and so provide a source of continued business profiting from tax evasion," said Christian Aid's economic adviser Joseph Stead. ■

IFRS RULES LIKELY TO **RAISE BANK LOAN LOSS PROVISIONS**

Impairment reserves for banks are likely to rise as a result of new accounting rules that introduce an expected-loss approach for loan-loss provisioning, Fitch Ratings says.

But additional provisions will not necessarily hit regulatory capital for all banks as technical differences will remain in the financial statements and regulatory reporting definitions of expected losses.

Banks using internal models under Basel's advanced approach calculate their own expected loss for regulatory capital calculation, rather than relying directly on accounting impairments. Therefore the effect of higher impairment charges as a result of the new accounting standard is likely to be moderated for these banks, depending on each bank's new level of provisions compared with the regulatory expected loss.

In contrast, banks under the Basel standardised approach do not calculate a regulatory expected loss and specific impairments flow directly into regulatory capital. Therefore, the impact of these accounting changes may be more significant for banks and portfolios under the standardised approach.

Regulatory and accounting 'expected loss' are quite different, although confusingly they share the same name. The regulatory calculation requires 12-month expected losses to be recognised and its scope is limited to portfolios under the internal models for regulatory capital. IFRS conversely, requires full lifetime losses to be recognised for some assets and applies to all loans at amortised cost. The regulatory approach also requires 'downturn' losses in the 'loss given default' calculation - a key input into the expected loss - whereas the accounting framework reflects current conditions.

The new accounting standard is intended to be more forward-looking, allowing management to factor forecast changes in conditions into the impairment charge. It will make provisioning more prudent (it will increase impairments) but at the cost of additional complexity. Implementation will involve considerable judgement and add to the degree of subjectivity already inherent in loan loss provisions.

The International Accounting Standards Board issued the final IFRS 9 standard on financial instruments following a five-year consultation, but there's still some time to wait until the new reporting is seen.

It will need to be endorsed by policy makers before it can be used in the European Union. Assuming that happens without delay it will come into effect in 2018, and in any case will be effective in jurisdictions outside the EU at that date. ■

Periscope

INTERNATIONAL

OECD RELEASES FULL VERSION OF GLOBAL STANDARD FOR AUTOMATIC EXCHANGE OF INFORMATION

Taking an important step towards greater transparency and putting an end to banking secrecy in tax matters, the Organization for Economic Cooperation and Development (OECD) has released the full version of a new global standard for the exchange of information between jurisdictions.

The OECD published full details of its global Standard for Automatic Exchange of Financial Account Information in Tax Matters in July, which has been under development for months as part of an international drive for more transparency in the banking sector.

The Standard calls on governments to obtain detailed account information from their financial institutions and exchange that information automatically with other jurisdictions on an annual basis.

It provides for annual automatic exchange between governments of financial account information, including balances, interest, dividends, and sales proceeds from financial assets, reported to governments by financial institutions and covering accounts held by individuals and entities, including trusts and foundations.

The new consolidated version includes commentary and guidance for implementation by governments and financial institutions, detailed model agreements, as well as standards for harmonised technical and information technology solutions, notably a standard format and requirements for secure transmission of data.

"The G20 mandated the OECD to work with G20 and OECD countries and stakeholders toward the development of an ambitious information exchange model that would help governments fight tax fraud and tax evasion," said OECD Secretary-General Angel Gurria. "Today's launch moves us closer to a world in which tax cheats have nowhere left to hide."

The OECD will formally present the Standard to G20 Finance Ministers at their next meeting in Cairns, Australia, on 20-21 September.

More than 65 countries and jurisdictions have already publicly committed to implementation, while more than 40 have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017. This includes a group of OECD and non-OECD countries which have adhered to the OECD Declaration on Automatic Exchange of Information in Tax Matters as well as a group of early adopters.

More jurisdictions are expected to commit to implement the Standard in the run up to the late-October meeting of the Global Forum Transparency and Exchange of Information for Tax Purposes which brings together more than 120 countries and jurisdictions, to be held in Berlin and hosted by the German Ministry of Finance.

At this occasion a signing ceremony is expected to be held for a new multilateral agreement that activates automatic exchange once legislation and other conditions are in place. Assistance will be available to support less developed countries, so they benefit from this move towards a more transparent tax environment. International organisations are ready to co-operate to support these countries.

HEFTY FINES FOR TAX ADVISORS WHO PROMOTE AGGRESSIVE AVOIDANCE SCHEMES

800
NUMBER OF SCHEMES HMRC BELIEVES ARE DELIBERATELY DESIGNED TO AVOID TAX.

£1M
POTENTIAL FINE

New rules by the UK tax authority, Her Majesty's Revenue and Customs (HMRC), has introduced fines of up to £1million on tax advisers who are deemed to be 'high risk promoters'. Fines could be imposed on them for failing to make their status clear, under proposals laid out in the UK's Finance Bill which introduces a series of penalties for both advisers and clients involved with aggressive tax avoidance schemes. The new rules will extend to accountants and lawyers who also endorse schemes that are deemed to promote tax avoidance, HMRC has warned.

Promoters of tax avoidance schemes will now be subjected to conduct and monitoring notices, and can also be "named and shamed", according to the bill which aims to crack down on tax avoidance schemes, users, and promoters.

Also, taxpayers can be required to pay disputed tax in advance of an agreed final position.

The draft legislation includes sanctions which HMRC says is designed to change the behaviour of promoters and their clients.

Initially, HMRC can issue a conduct notice when a promoter meets a threshold condition which suggests their scheme could be open to abuse. There is no right of appeal against the issue of a conduct notice, which can last for up to two years, and which impose conditions on a promoter that must be complied with. This can be followed by a monitoring notice, which may be issued by HMRC where a promoter breaches a requirement in a conduct notice.

Monitored promoters will be subject to a more stringent regime which includes the requirement to publicise their status on their website and in marketing communications to all current and prospective clients.

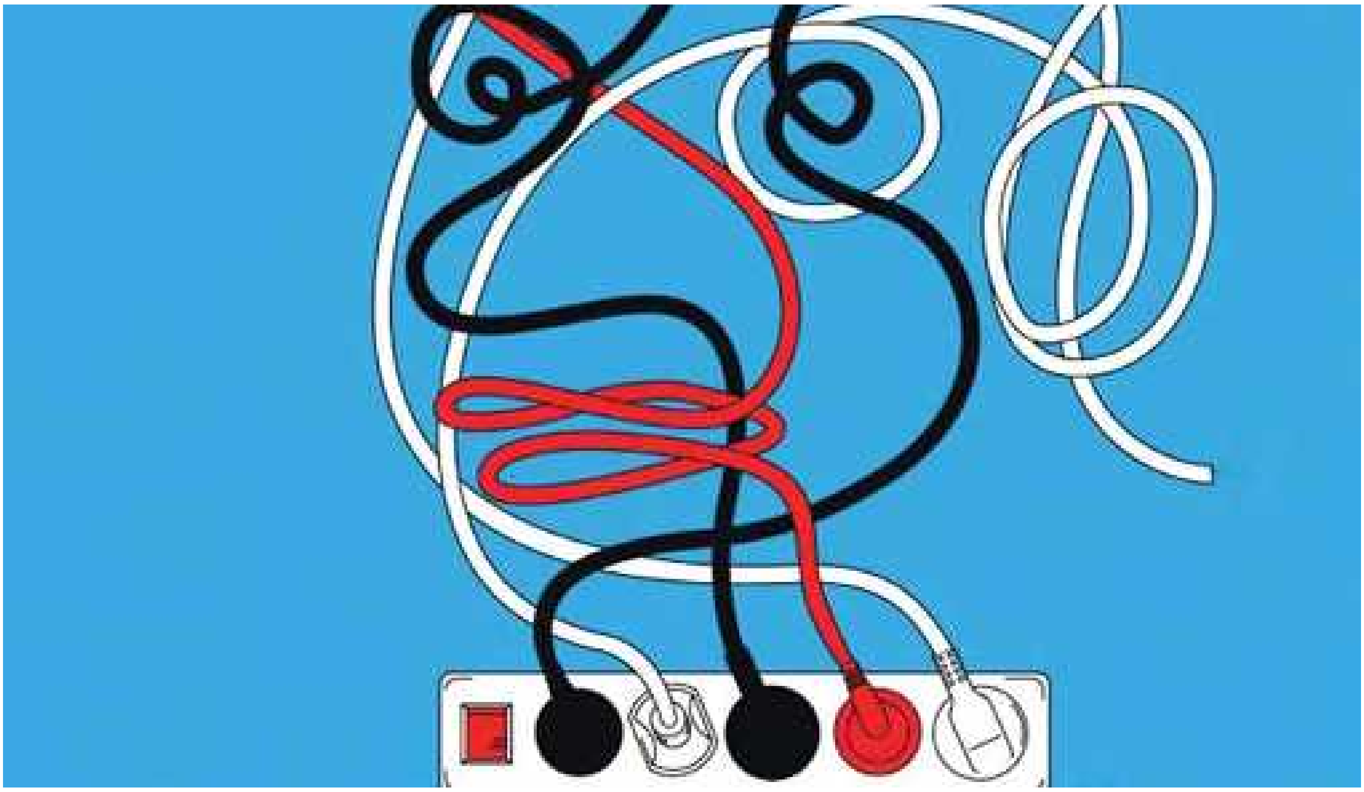
There will also be penalties for any attempt by a promoter to impose confidentiality on clients in relation to disclosure to HMRC and a new criminal offence of concealing, destroying or disposing of documents.

A HMRC spokesperson said that while the vast majority of tax advisers were highly professional, there were a few "high risk promoters" who endorse tax avoidance schemes without being transparent with the revenue.

By
Vinod Moonesinghe

Frankenstein and the limitations of technology

Technology can be a double-edged sword: while it can solve problems and reduce financial costs, it can also cause new environmental, social and political problems. Water pollution, Global Warming, the Ozone Hole and nuclear disasters such as Chernobyl and Fukushima are all consequences of the unrestricted use of technology. The question is how to tame it.



In the northern hemisphere, 1816 was cold and damp, probably due to the eruption the year before of Mt Tambora in Indonesia, spewing forth over a million and a half tonnes of volcanic ash, obscuring the sun and causing cold weather and persistent rains. That year the English Romantic poet Percy Bysshe Shelley and his fiancée Mary Wollstonecraft Godwin (known today as Mary Shelley) decided to join the Romantic poet George Gordon Lord Byron and his physician, John William Polidori on holiday at Cologny, by Lake Geneva in Switzerland.

"But it proved a wet, ungenial summer, and incessant rain often confined us for days to the house," wrote Mary Shelley. Being avant-garde intelligentsia, the group decided to pass the time by each writing a horror story. Byron and Shelley both produced only "fragments"; Polidori picked up on Byron's, expanding it into the

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world's first Vampire novel, titled (appropriately enough) The Vampyre.

Mary Shelley persisted in her efforts and, two years later, published the world's first modern science fiction novel, Frankenstein or, the Modern Prometheus. Her tale of Victor Frankenstein, the prototypical "mad scientist", who creates an android which turns on its creator, captured the world's imagination. It spawned the term "Frankenstein's Monster", the cliché "I have created a Frankenstein's monster" and the phobia of androids and robots, the "Frankenstein complex".

The novel is considered to be a path-breaking allegory, critical of the unbridled use of science and technology. The protagonist uses science to create the monster, which promptly "goes feral", destroying humans - metaphors for human society.

It was written when the Industrial Revolution had changed people's lives, mostly for the worse, as dispossessed farmers and artisans - made jobless as traditional hand-work was replaced by organised mass-production - flocked to the new urban conglomerations to find work in factories, settling in squalid slums. The Romantic Movement, to which Mary Shelley and her group belonged, arose partly in response to these conditions.

In England, there were riots by "Luddites", who showed their discontent at living conditions by "machine breaking" (sabotaging machinery in factories), whereby they were perceived by the press to be anti-technology. Byron spoke in their defence in the House of Lords, making one of the first Parliamentary commentaries on socially-destructive technology.

Both Frankenstein and Byron proved to be remarkably prescient in their views. While science and technology have created, for the first time, the potential for a healthy, wealthy society, they have also bred a raft of Frankenstein's Monsters, from agri-businesses destroying the livelihood of independent farmers, to fossil-fuel based energy-business causing global warming and the Ozone Hole.

The response to these developments has been threefold. Firstly, the anti-technology tradition is perpetuated by "Neo-Luddites", who claim to be only against those forms of technology which are destructive of nature and society, but who are often suspicious even of scientific research. They point out that certain technologies have inherent flaws, by their very nature.

The anti-technology tradition is perpetuated by "Neo-Luddites", who claim to be only against those forms of technology which are destructive of nature and society, but who are often suspicious even of scientific research.

Their stance does have some validity. For example, both communications and information technology have been critiqued by mainstream authors. American media theorist and cultural critic Neil Postman pointed out that advances in communications, starting with the telegraph, while speeding up the speed of dissemination of information, have had the effect of reducing attention spans and converting information to "infotainment"; children no longer have a "childhood" because of unrestrained access to adult tele-visual content. Professor of computer science at the Massachusetts Institute of Technology Joseph Weizenbaum, in Computer power and human reason, indicated that increasing reliance was being placed on computers in making choices - which requires human judgement, not machine calculation.

Secondly, there is the "business-as-usual" fraternity, who see little wrong with technology, ranging from unrepentant supporters of "non-Green" technologies, to advocates of a little tinkering with existing technology. The former wield enormous influence and have managed effectively to sabotage any real contribution to combating phenomena such as global warming - the most recent of these reactionary acts being the Australian government's repeal of the Carbon Tax.

The latter, on the other hand, do have a point. A "technological fix" has in many cases managed to solve problems caused by technology. Examples are the introduction of engines capable of burning unleaded petrol without loss of efficiency, which has cut lead pollution drastically, and the switch to Ozone-friendly refrigerants in air-conditioners and refrigerators. Even this attitude, however, has a major flaw - it is essentially reactive, not proactive. Frankenstein's monster is caged, not tamed.

A third, pro-active alternative, between the extremes represented by these "Frankensteins" and the Neo-Luddite "villagers", is offered by the Environmentalists, who are concerned about possible Frankenstein's monsters, but who recognise that they can be managed with a little foresight.

Environmentalists opine that the bottom line is not necessarily the best criterion for innovation, that the market is not a suitable place for evaluating the appropriateness of technology. As it is, the market is often manipulated by vested interests. For instance, in the 1950s the United States government taxed

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railways and used the income to subsidise road construction, leading to higher railway costs, making (less efficient) road transport competitive – and to greater sales of lorries and, hence, of fuel. Technology followed business away from railways to road vehicles.

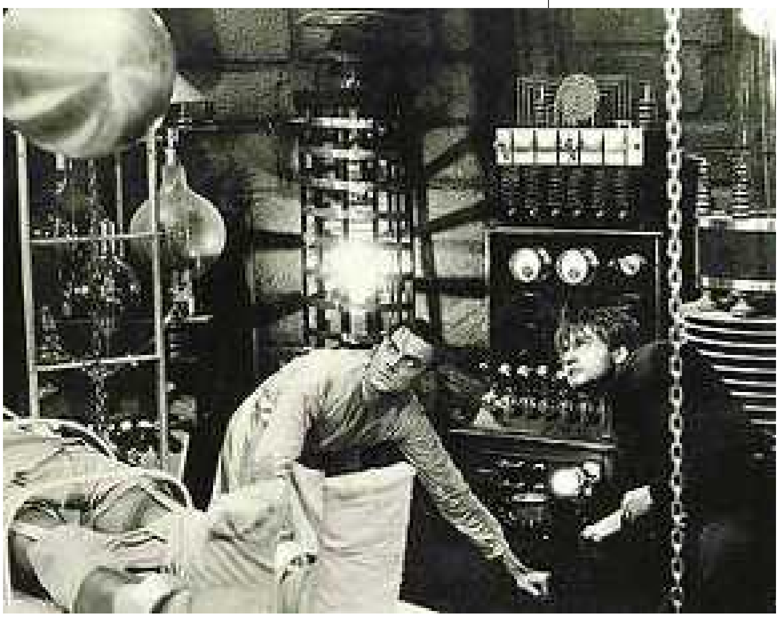
The Market tends to select technologies generating greater profits in the short run, as illustrated by the success of toxic agro-chemicals used during the '50s and '60s "Green Revolution", which boosted crop levels, but caused long-term decline of the soil, while poisoning groundwater resources.

"Our priorities are tilted by marketplace imperatives," said Microsoft founder Bill Gates last year.

"The malaria vaccine in humanist terms is the biggest need. But it gets virtually no funding. But if you are working on male baldness or other things, you get an order of magnitude more research funding, because of the voice in the marketplace, than something like malaria."

Major developments are taking place with Nanotechnology, in medicine and cosmetics, without much public discussion of what damage they might cause to human health.

Visionaries such as Science Fiction writer Isaac Asimov, who coined the term "robotics" and "Frankenstein complex", expected that robots would relieve human drudgery. However, the robots which have been devised



The malaria vaccine in humanist terms is the biggest need. But it gets virtually no funding. But if you are working on male baldness or other things, you get an order of magnitude more research funding

remove human beings from the higher-paid jobs, which require skill, such as welding and fitting, leaving worse-paid unskilled workers.

The productivity of the market as a mechanism for greater innovation is actually fairly low, centrally-defined technological research having proved better - as witness the boosted rate of innovation during the two World Wars or the Space Race.

Unlike the Neo-Luddites, Environmentalists advocate that technological research should continue, but that its application be strictly controlled, preferably democratically. For this reason, they consider vital things like the Environmental Impact Assessment (EIA) process - including input from all stakeholders - which businesses, and sometimes governments, tend to consider merely an impediment to progress, to be circumvented as much as possible. However, a thorough EIA can cut down the financial, as well as environmental and social, costs of a given project - not least by preventing expensive disasters such as Chernobyl and Fukushima.

Integrated reporting (IR) is an important step forward. By communicating to stakeholders the environmental and social risks of their operations, companies can help prevent damage arising from their own use of technology. However, while it remains purely voluntary, it has a drawback in the market. Companies which do not apply strict environmental measures have a competitive advantage in terms of the bottom line. Mandatory IR would tend to correct this problem, although requiring a high ethical standard from the people preparing annual reports.

Imagine that protective measures such as EIAs and IR were in place during the Industrial Revolution. The world might have evolved differently, with a smoother and less damaging transition from artisanal manufacture to mass production, without sprawling urban slums. We would have stayed with greener technologies, organic chemistry would have remained organic, electricity rather than petrol would power our vehicles, and we would be spared Global Warming and its consequent, appropriately named Franken-weather - super-storms, super-droughts and super-floods.

Of course, then Mary Shelley might never have written Frankenstein.


AKIRA NOZAKI

AKIRA NOZAKI:
NEED TO RE-THINK CORPORATE GOVERNANCE

BY VINOD MOONESINGHE

FRED Conference

Ever since the Enron scandal, the issue of corporate governance has been a burning one and has gained in importance following the Global Financial Crisis (GFC). It was emphasised in regional terms by the Satyam Scandal and nationally by the collapse of the Ceylinco Group.

We interviewed Akira Nozaki, Economist/Policy Analyst in the Financial and Enterprise Affairs Directorate of the Organisation for Economic Co-operation and Development (OECD), an expert on corporate governance, during the recent Financial Reporting for Economic Development Conference in Negombo.

He has authored several reports on the subject, has initiated an information-sharing scheme on corporate government practices in all OECD countries and several other jurisdictions, and was responsible for publishing the OECD Corporate Governance Factbook. Prior to joining the OECD, he was Deputy Director in the corporate accounting and disclosure division of the Financial Services Agency (FSA) in Japan, in charge of drafting the regulatory framework regarding capital markets and corporate governance, which also covers accountants, audit firms and credit rating agencies.

Being a diffident person, Nozaki seeks to hide his light under a bushel. However, his enthusiasm for his subject, Corporate Governance was soon revealed.

The biggest stakeholders in a company or corporate body are the general public, yet they were affected by events over which they had no control, such as the Enron scandal and the GFC meltdown. Akira Nozaki thinks that the question of how to prevent such occurrences in the future is a difficult one, because stakeholders have different preferences in terms of the information they need for their investment decisions.

"Some people," he says, "prefer to know about environmental issues, some prefer to know about general issues, other people want to know about job security and so on. From the perspective of the regulators, they have to optimise the information to be conveyed."

He notes that it is costly to prepare disclosure documents, so cost/benefit analyses are required. Whereas politicians and civil society as a whole emphasize social, gender and environmental issues, the investors in general only have a small stake in these. A cost/benefit analysis will show that mandating the disclosure of such specific issues does not pay for the company or for the society as a whole. However, cost/benefit analyses includes future prospects, so while currently people do not in general care about environmental issues, perhaps in 5-10 years the situation will have changed. Nozaki hopes that that the politicians will have the necessary foresight regarding how companies should be developed, in collaboration with shareholders, over the interim period.

On the formulation of international standards, he is unequivocal. He believes that simply copying the Anglo-Saxon model will not work in different cultural regimes, for example in Asia. The purpose of the OECD Corporate Governance Principles is to obey the spirit of corporate governance, not to provide a toolkit which obliges a country to apply a specific framework of regulations. He emphasises the importance of this kind of approach, although he confesses he is unsure about how responsive the International Federation of Accountants (IFAC) would be or whether the International Financial reporting Standards (IFRS) would be sufficiently flexible.

"I am not a specialist on IFRS," he admits, "but in general there is a discussion about the convergence of standards in terms of corporate governance. I believe in a more global and more flexible approach to international accounting. I don't think there is any problem for Asian countries to accept International accounting standards, if there is some room to make adjustments based on the country's specific issues."

The OECD corporate governance principles include a specific chapter on disclosure and transparency. The bottom line that the OECD maintains, he says, is the independence of external auditors and respect for the international standard for audit firms or accountants. Based on these criteria, International organisations such as IFAC and accountants' associations can create global standards of ethics and professional conduct for their own specialities.

Nozaki feels that they should also develop mutual recognition of their qualifications, because each jurisdiction uses a different examination system. There are certain common concepts, such as integrity, maintenance of independence from the audited companies, and development of professional scepticism. These very traditional issues still remain the basic problem, which is why the European Commission decided to introduce the rotation rule for audit firms. He considers that such issues can be discussed, say with the European Commission, or Japan or the US, to discover how they try to manage this sort of fundamental problem.

"You can share ideas," he believes, "but you don't have to follow all the international standards."

He cites the example of Japan, where audit firms are dominated by the "Big Four" international networks, which each have their own internal method. Their business approach to enhancing their international coverage was to digest the US standard, the UK set standard and so on. However, in applying their own particular methodology to circumstances specific to Japan,

International organisations should not pursue just 'one size fits all' strategies because, while it is easy to produce such rules, it doesn't work very well in practice. We know this very well from experience." *- Akira Nozaki*

a conflict could arise in terms of issues such as interpretation of business judgement. He thinks this might equally be the case with regard to Sri Lanka or India.

Because the Big Four function on their own global understanding of the standards, difficulties may arise in the case of regulators such as the Securities and Exchange Commission in Sri Lanka and Japan's FSA, who have their own interpretation. The solution to this will not be easy. From these circumstances arises the need for the regulators to take part in international communication on these subjects. They could, for example, communicate through the International Organisation of Securities Commission (IOSCO), which has its own basic standard for maintaining auditor independence.

He also thinks regulators also need to base themselves on an understanding of the global perspective - not necessarily to adopt an international standard, but at least comprehend what it means - if they are to communicate with global audit firms, who have large back offices, with a huge bank of worldwide knowledge.

"Sometimes," he points out, "if you are a regulator and you ask an accountant a question, they cannot respond immediately because they have to first ask the UK or US office. This is the kind of dilemma or frustration the regulators face."

The emergence as economic powers of countries with previously not so prominent cultures, such as the Muslim countries - with their specific financial practices - and of course China (with its own particular cultural practices), has impacted international accounting by making diversity rather than uniformity the norm.

"From the OECD perspective," he says, "we think we should respect cultural differences as far as possible. International organisations should not pursue just 'one size fits all' strategies because, while it is easy to produce such rules, it doesn't work very well in practice. We know this very well from experience."

The OECD is in somewhat of a dilemma in the contemporary situation, because most of its 34 member countries are European, and there are only three member countries from Asia: Japan, South Korea and Australia. No other South East Asian country has gained a membership position, although it is hoped that more will participate in future. Indeed, such countries as China, Qatar and Singapore do want to participate.

The OECD has partially alleviated this impediment by maintaining communications with countries like China, Indonesia and Singapore, through various mechanisms. It is keen to develop corporate governance in Asia, which is why it hosts the OECD-Asian Roundtable on Corporate Governance and conducts bilateral projects such as the policy dialogue with Indonesia on Disclosure of Beneficial Ownership and Control. It is now engaged in discussions with Myanmar.

"We try to focus much more on the non-member countries," he smiles, "because discussing with non-member countries is more exciting."

The OECD also arranges other regional meetings on corporate governance, such as the Latin American Round-table on Corporate Governance, the Middle East and North Africa (MENA) network and so on, focussing very specifically on cultural differences when discussing corporate governance issues.

"In the case of Asia," says Nozaki, "many companies are family-owned, so the most significant issue to be addressed is related-party transaction. Hence the Asian Round-Table published its conclusions in the Guide on Fighting Abusive Related Party Transactions in Asia. These types of initiatives could be made because we focus on cultural differences, cultural specialities. I think that we need to keep focussing on and keeping respect for cultural differences."

Where does he think Sri Lanka stands, in terms of corporate governance? He says that, from the beginning, it is more important to share a common understanding of the concept of corporate governance, before implementing regulations. Sri Lanka developed a corporate governance code in 1996 and updates it based on the OECD's timing for code updates, and so has more than 10 years' experience of sharing understanding of the corporate governance standard.

"I am not a specialist on Sri Lanka," Nozaki chuckles, "but I believe that Sri Lanka now shares the basic conception of what is essential to ensure the integrity of financial reporting. I am not sure how far the regulators have enforced the type of framework required to ensure fairness of financial reporting and accountant independence, because the second step is more regulations and enforcement."

He notes that Japan and the US still have some problems with enforcement, even though they share a common understanding; some scandals still occur, to which the regulators must react promptly in a transparent manner. This is an important function to enhance the quality of the capital market.

He considers that ensuring quality control of the content of disclosures is the most important factor in financial reporting. There must be a common framework for the investors, for the audit firms or for accountants as a whole. However, in terms of integrated reporting, it is more important to communicate effectively with the investors, because current financial reports contain much information which is not so useful to the investors. Relevant information is not so easy to find because it is distributed in many different places.

"I am not sure how integrated reporting will develop in the future," Nozaki says, "but it is important to maintain the spirit of making the information more comprehensible to the investor or user, not just making boiler-plate statements or presenting lists of numbers. In terms of corporate perspectives, I think it must facilitate real communication between the board of directors, or the company's management, and the shareholders or investors. In addition to the basic information, it is important to convey to investors through the disclosure framework what the board of directors' risk strategies are, what their perceptions of the risk profile are and how they intend to cope with challenges facing them."

What exercises Nozaki's mind most is that the increasing complexity of corporate governance, due to changes in the economic environment over the past few years, has induced new problems.

"We need to stop and think again'" he says, "about what corporate governance is, because more than 15 years after the OECD corporate government principles were introduced, a significant new corporate governance business has developed, and the investment chain between the real beneficiary owners and the companies has lengthened."

In between, he points out, there are trustees, custodians, investment consultants, investment managers, proxy advisers, and brokers, dealers, or private equity firms. The beneficiaries/owners invest in a pensions fund, and the pensions fund outsources reporting practise to trustees, who completely rely on investment managers, who rely on proxy advisers who are very busy with dealing with annual general meetings (AGMs). On average one staff member has to deal with three AGMs per week, globally. The long investment chain contributes to a distortion of the original aims of the beneficiary owners in the interest of the intermediary agents. The intermediaries try to minimise their costs for the engagement, which can be fairly heavy - it is necessary to read all the annual reports, to check each and to communicate with the directors. So they prefer to outsource, and everything is automated. The proxy advisers give advice, but have no real incentive because the purpose of their business is to get a fee from the investors. The result of this situation is commoditised corporate governance. This state of affairs has manifold consequences for the bookkeeping culture.

"The global office sets out the global standard," complains Nozaki, "the local offices set out some small adjustments. Based on this kind of very simplified criteria, they hire some bookkeeping assistant to do patch-up jobs. I doubt that this mechanism is functioning effectively."

"The practice of governance," he continues, "needs to be purified, made less complex: if you look at the situation in the US or the UK, it looks very sophisticated but in fact, the core functionality might be lost. The situation is very complicated, but we need to analyse what the weaknesses are in this kind of very complicated mechanical corporate governance practice. Based on the understanding we get thereby, we need to re-address the basic concepts: what is the most essential path for economic growth and for innovation. I do not have any specific conclusion, but I do think I have identified the area to be addressed." ■

We need to stop and think again about what corporate governance is, because more than 15 years after the OECD corporate government principles were introduced, a significant new corporate governance business has developed, and the investment chain between the real beneficiary owners and the companies has lengthened.

GILLIAN FAWCETT: GOVERNMENTS NEED TO GET THEIR ACT TOGETHER

BY VINOD MOONESINGHE

FRED Conference

Gillian Fawcett is a member of the public sector committees of the Confederation of Asian & Pacific Accountants (CAPA), and the Federation of European Accountants, and is Head of Public Sector, ACCA (Association of Chartered Certified Accountants) Global. She has a wealth of experience and knowledge of the public sector, with expertise in corporate governance, financial management, performance management, and human rights and equalities. She worked as a Senior Fellow at the UK not-for-profit consultancy organisation Office for Public Management, as Head of Policy at the Audit Commission, as Head of Finance at the House of Commons Scrutiny Unit and as a Specialist Adviser on audit policy to some Select Committees of Parliament. She has contributed to the British press, including the Guardian and the New Statesman and was recently appointed to the Editorial Board of the Guardian Public Leader's Network. She spoke to us at the recent Financial Reporting for Economic Development Conference in Negombo.

What are the main challenges that you see for accountants in the public sector?

Where do I start? The main challenge for the public sector is to attract talent, professional accountancy talent within the sector, particularly in terms of where the private sector is more attractive; to attract talent, to retain talent, to build the necessary career structure and rewards that allow experience, skills, and indeed talents to be developed.

A second challenge is for governments around the world to get better at financial reporting and produce a balance sheet, so that you can have global conversion of accounting statements, accounting standards; a harmonisation, because there are a lot of governments around the world at different stages of the public financial management journey.

A third challenge is to get transparency and accountability from governments. We often get to see governments (not all, but some) wanting to be accountable, to be transparent. In the UK, for example, accountability is a hard-fought-over issue.

The fourth challenge is having a robust, strong audit and scrutiny function in place, and having it staffed by auditors who are qualified accountants who can exercise independent audit and scrutiny of the executive of the government. This is also necessary, in terms of the legislative side, i.e. Parliament, in order for a strengthened role for committees such as public accounts committees to exercise effective scrutiny over the financial reports that are submitted to Parliament and hold government to account.

One of the issues arising at this conference is that, while the private sector is responsible to and reports fairly rigorously to its stakeholders, the government does not.

Ultimately, there is a key difference in relation to accountability to a range of stakeholders, and not least the citizens. Parliament is probably the most critical body in terms of exercising overview and scrutiny of those financial reports. But of course you have a whole host of other stakeholders who are interested in government financial reports. The taxpayer is an audience for the government's financial report as well; institutional investors, such as pension funds, have an interest; credit-rating agencies have an interest, so there is a real broad range of stakeholders whom governments have to think about when they produce financial reports.

My position is that that governments around the world need to get their act together and produce a balance sheet because, if you look at the money they spend, government departments or ministries are multi-billion pound businesses. If we expect the corporate sector to publish a balance sheet which shows their assets and liabilities, then why shouldn't the government sector do the same? You know, there are two sets of standards there. The picture is fairly complicated around the world because you have a lot of governments that are still producing cash accounts and they don't have a balance

When government departments started reporting on an accruals basis, there were quite a number of the financial statements where the auditor gave qualified opinion that certain things were missing and so on. But over the last decade, much has improved

sheet. And in some cases there is no political will to move from cash-based accounts to a set of accruals-based accounts with a balance sheet. It can be difficult to persuade governments and politicians that that is the direction to move in.

Thinking about sustainability in public finances, how do governments know what their liabilities are for the future if they don't produce a balance sheet? As an example the UK government has for the past 3 years produced a consolidated set of government accounts, with a balance sheet. And on that balance sheet it shows some significant liability, to the tune of £2.1 trillion worth of liabilities for pension payments and, similarly a huge amount of liabilities in terms of private/public partnerships. So quite clearly governments are going to have to plan for meeting those liabilities in the future and also re-adjust and rethink policies in those areas, because it is unaffordable. So that is the important fundamental reason why governments should be producing a balance sheet.

In terms of integrated reporting, governments should be reporting back to their stakeholders, but much is hidden from the general public. How would you tackle this problem?

Why shouldn't governments report on the impact of their activities on environment, as they do in the private sector? They are not particularly good at it, not just in developing countries and emerging economies, but also in the developed world. A few years ago, looking at what governments are doing about reporting on sustainability, we did a study across ten countries and came to the overriding conclusion that it was very patchy. Governments around the world have to get their act together in reporting effectively on the environment; and not just about the environment, but also about the social and economic aspects. As the Integrated Reporting framework develops for the public sector, there is a real opportunity for governments to embrace it and start to produce reports that meet not just environmental, but also the social aspects in relation to sustainability, too.

All governments should be accountable and transparent to Parliament and to the wider public, and that is essential in terms of fundamental values that should be important to government. If you are seeking to hide money, projects or programmes, if there is a culture of not being transparent or accountable, then you will limit economic growth because you will discourage investors. Any government should be aspiring to be compliant with the OECD principles of good governance, with accountability, transparency and objectivity in their values and principles. It is the role of the accountants behind the scenes to be actually saying "no, this is not the way you should be accounting for these programmes, they need to be in the public domain"; they have an ethical responsibility.

One of my jobs at the Parliamentary Scrutiny Unit was to look through government annual reports to help parliamentarians ask the right questions. It is difficult for the public, even for parliamentarians to actually navigate the information. In the UK some people in government, such as local authorities have been experimenting with ways to be more innovative about the way they present information to the public. A relatively good example is how the whole of government accounts in the UK have started to use graphs and pictures to explain complicated information. I really believe we need to think more innovatively about the way we present information, since sometimes complexity makes it less easy to scrutinise information effectively. I think much more can be done by the accounting profession to make reports more useable.

Do you get problems in the UK, as you do in Sri Lanka, of government bodies not reporting back to the central authority?

A long time ago, to my knowledge, this certainly was the case in the UK: when government departments started reporting on an accruals basis, there were quite a number of the financial statements where the auditor gave qualified opinion that certain things were missing and so on. But over the last decade, much has improved, so if you look across the government in the UK, there are probably only one or two government departments that have an auditor's qualification, which shows that the standard of financial reporting has improved over the decade.

It would not be fair for me to comment about Sri Lanka, but I am aware of the positive progress that has been made in the Ministry of Finance, particularly in seeking to produce a balance sheet. The two countries are at different levels in terms of the maturity of financial reporting, but Sri Lanka is definitely making positive inroads.

What is your take on how to attract more talent to accountancy in the Public Sector?

It is a universal problem and in the UK it is becoming an increasingly difficult one. Even though salary differentials are not as high as in Sri Lanka, needless to say it is a pretty fraught issue. First of all it is necessary to get the right organisations in the room that have an interest in public service –

public service commissions, the government and so on – to actually recognise that there is a problem. There are many different ways for developing the profession. The starting point is about the political will to do so. There also has to be strong professional will and backing for the need to develop the profession within government, as well as recognition that this can be done through setting up a career structure within accountancy and audit, and that is absolutely critical.

The other thing we need to think about is that we don't necessarily need everybody to be a professionally qualified accountant, to recognise that not everybody can be director of finance or what have you. Underneath you have technicians and others who can understand basic bookkeeping and can run a payroll system. You need professionals at different levels throughout the organisation, and to make those career opportunities attractive by doing training programmes, by continuing professional development.

Governments need to work with the profession itself, sharing ideas of how best to develop accountants within government: there are all sorts of mechanisms. It is also necessary to be innovative; for example in the UK there is a secondment programme that enables business-minded people who work within big corporates to go into government for a while, so they get experience of politics and government, and the government also benefits; and vice versa. So in essence both sectors gain in experience.

Can the popular perception of accountancy in government as boring be a disincentive to attracting talent?

In my own career, starting up as a qualified accountant, I have had a fabulous career in the public sector. You get to work with politicians, you get to work with policy-makers, and you get a variety of work. You also see that you get to make a difference, that you are part of a team. You see that you are contributing to a policy initiative, you see that policy benefit realised and the public benefitting from it, which gives you a real buzz. So it is not just about accountants being bean-counters in the corner anymore. The complete accountant is not just about the technical skills, it is about exercising the wider skills around leadership and strategic management: influencing skills and negotiation skills. In the public sector you get to use all of those skills, to move up in terms of your career. So it is by no means a boring profession.

What has been your experience of accountancy in different parts of the world and integration of accountants with different cultural backgrounds?

Subjects tend to be the same all over the world, it is about strengthening audit, strengthening public financial management and getting better at financial reporting and risk management. What is fundamentally different is where a country is on that stage of the journey. Some countries, if you look at a starting-point of a 1 and an end point of a 10, the variety and diversity of where the countries are on that scale are considerable. Some countries are unable to produce a set of cash accounts, whereas at the other end of the scale they produce financial reports all singing and all dancing. So they are very different, in terms of where they are on the financial management journey. But generally, things don't really change that much; apart from new things such as integrated reporting. It is my impression that you need different levels of support, help and engagement.

You are training accountants. No matter where in the world, if they have been successful at the examinations, they should be able to practise anywhere in the world. Everybody has the same set of technical skills. On that basis there shouldn't be a problem. People recognise one-another's cultural differences and learn to work with it.

Where the problems do come in is to do with protectionism on the part of governments, whereby they would only seek to employ people from their own national body – even though there may well be additional capacity – as opposed to other bodies. Sometimes, around the world, you see protectionism which does then have an impact on a number of other bodies whose members may have relocated to foreign countries. ■

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NIGEL SLEIGH-JOHNSON: ADOPTION OF INTEGRATED REPORTING IS ON SLOW-BURN

BY VINOD MOONESINGHE

FRED Conference

Dr Nigel Sleigh-Johnson received his PhD from University College London, and has 30 years of technical accounting experience under his belt. His considerable experience includes both the private sector and the not-for-profit sector. He has been, for over a decade, Head of Financial Reporting at the Institute of Chartered Accountants of England and Wales (ICAEW), where he has responsibility for all its commentaries and policies on financial reporting - including on the new UK GAAP (Generally Accepted Accounting Principles) regime applicable from January 2015. A speaker at the recent Financial Reporting for Economic Development Conference in Negombo, he spoke to us about his, and the ICAEW's, views on various issues pertaining to reporting and to the profession.

> **I think they are doing the right things, but it is a huge global initiative, a new experience and there has been no major precedent. There have been global bodies setting rules before, such as the Basle Accords for banks, but never a standard-setter accountable to its stakeholders setting standards for the whole world.**

What is your response to the feeling in many Third World countries that the International Financial Reporting Standards (IFRS) have been tailored to the needs of the advanced economies?

Insofar as the standards have been designed for major international companies, there is obviously a degree of truth in that; countries where business enterprises are much smaller will clearly face difficulties. We have similar challenges even in Europe: some economies have very few large listed companies, having almost entirely SMEs (small and medium enterprises). In the UK itself, although we have a couple of thousand listed companies, there are millions of smaller companies and we have had to see whether IFRS really works for them. We have been doing so for 10 years, waiting, like many others, for the International Accounting Standards Board (IASB) to produce a standard for SMEs, which they were reluctant to do for a long time. The UK has had a standard for SMEs since 1997. It has been recognised that we need different standards for different types of companies. We have now developed an IFRS-based standard which is more suitable for the smaller companies.

It is true that the origins of the International Accounting Standards Committee (IASC), which preceded the IASB, and which was founded with the help of the ICAEW, are very much UK and US and some other countries. Inevitably, with their very developed accounting standards, they dominated the first days of the IFRS Foundation, so most active board members have come from those jurisdictions. The first chair, Sir David Tweedie and the new deputy Chair, Ian Mackintosh, were both formerly Chairs of the Accounting Standards Board in the UK; and some of the most vocal and highly contributing board members of the IASB have been Americans. This reflects the fact that the Financial Accounting Standards Board (FASB), the world's longest-established effective standards setter, is very well resourced, has technical expertise and experience and acts for the world's largest capital market.

I think they are doing the right things, but it is a huge global initiative, a new experience and there has been no major precedent. There have been global bodies setting rules before, such as the Basle Accords for banks, but never a standard-setter accountable to its stakeholders setting standards for the whole world. That involves due process, listening to and taking people with you, and developing standards suitable for application around the world. That is an enormous challenge. It is still early days, but I think this next phase is about trying to engage more with the global stakeholders, which IASB is doing various things to achieve.

My institute published a report in December 2012, "The future of IFRS", about how the IFRS Foundation had to evolve into a truly global organisation: looking at its constituents around the world and developing feedback mechanisms to respond to interests and concerns on the ground; to help countries, with less experience of standards setting and principles-based standards, to move to IFRS and so on. It was time to focus very squarely on the needs of the huge body of new and forthcoming stakeholders around the world, especially in Asia. The IFRS convention has taken on board many of the things we recommended.

Among them is encouraging regional organisations of standard setters, and coming out to IFRS jurisdictions and hearing concerns. There have been, recently, technical initiatives in response to non-US, non-European concerns, such as the changes which were made regarding agriculture IAS 41, largely at a Chinese request; and changes that are largely to do with Canada's problems with rate-regulated industries. So they are trying to be responsible to more than just the very large companies traditionally based in the US and Europe. There is a long way to go still.

Isn't adherence to IFRS voluntary in Britain?

In the UK the accounting institutes used to set the standards, but now there is a separate national standards setter, the Financial Reporting Council. It is voluntary for companies to use IFRS, unless they are listed companies captured by the IAS regulations, and they are group accounts. There are many, even listed companies, who still prepare their stand-alone accounts under UK GAAP; some listed companies don't prepare IFRS accounts because they are stand-alone companies without any subsidiaries, not group entities. It has been voluntary since 2005 for all other companies, but very few companies have taken it on.

What has changed is that our new UK GAAP standard is largely internationally-aligned, based on the IFRS. The changes being made reflect the UK's long tradition of standards setting - we want various practices and experiences which seem relevant, which would not necessarily be applicable to the rest of the world - working better in the slightly more sophisticated UK market where you have a big profession, used to making principles-based judgements. We have also identified some weaknesses, which we think should actually be changed in the IFRS.

What is your take on integrated reporting?

The ICAEW has been closely involved with integrated reporting (IR) since it first emerged from Prince Charles' Accounting for Sustainability initiative. We have responded to all of the consultations of the International Integrated Reporting Council (IIRC) and have a strong interest in what is happening there. We think IR has the potential to act as a real catalyst for change. It is not entirely clear where it is going to end up - it is very early days, and although it is a very bold movement and has achieved a great deal very quickly, we think it is still very experimental.

IR features regularly as an item of debate when people discuss corporate reporting in various fora and there is a lot of interest in it amongst the largest international companies in the UK at least. Some are moving towards IR, but they are taking their time, which is a good thing - they are looking at embedding the recommended sort of thinking into their own corporate cultures, before they make any attempt to report.

The very active proponents of IR among major UK companies are quite a small number. The majority of the largest companies are considering what it does mean for them, whether their investors and other key stakeholders really want them to do this, what the real drivers are, and what is needed in terms of connectivity of the organisation - which is obviously a crucial step before you start reporting. So it is a slow-burn in some ways.

There are many challenges, one being making sure that it truly is international - It might work differently in different parts of the world. There is a very limited take-up in Asia and the United States, to take two pretty important areas, and a bit of a focus on Europe as well as some of the South American jurisdictions. We want to make sure that the concepts are understood and work well around the world, which is a challenge, but I know the IIRC is very much aware of that. It also means there will be difficulties in mandating it; trying to mandate, say, the December 2013 framework will not necessarily work very well in particular jurisdictions, because there are different cultures and levels of development, which have an impact on effective applications. We envisage a voluntary market-led thing, and I think the IIRC do as well.

One example of the differences around the world is that in the UK a great deal of effort has been made and there has been a strong focus on non-financial information - many IR features have been introduced recently to the accounting framework. There has been an effort at the European level to do similar things. A new directive was passed a few months ago, requiring more non-financial disclosures by major companies across Europe, coming into effect in a couple of years. We have, over many years and especially in the last year or two, greatly enhanced the quality of the narrative, non-financial elements of the traditional annual report and accounts.

We were very pleased to see that the IIRC, towards the end of their consultation process, recognised that you could achieve integrated

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reporting, not necessarily through a standardised separate report (which was the initial vision), but by enhancing your own long-standing annual report; and some conditions are laid down to conform to an acceptable framework. There is a lot of interest in the UK working with that sort of model, but whether it is seen as an equally valid way of doing things I am not entirely sure.

IR is a really interesting development, and undoubtedly has potential for improving corporate reporting, but I think we should all work towards trying to achieve the vision of the IIRC in our own ways, and see where we get in five or ten years–it is going to take a substantial period before we can assess the outcome. It will be an interesting journey.

How will you ensure that stakeholders are not going to be affected by such events as the Enron Scandal or the Global Financial meltdown?

I don't think anybody is advocating stopping traditional financial reporting: with the improvements that were made (some are still required) to IFRS, it is still going to provide bedrock for investors to understand a company's performance and prospects. However, there are wider aspects of corporate reporting and that is where IR comes in. It can do a fine job in shining light on wider issues and encouraging better corporate behaviour in terms of integration of the internal systems and mechanisms of companies.

But IR is only one among a range of long-term initiatives designed to lead to better corporate behaviour, accountability and reporting, varying from jurisdiction to jurisdiction. There are other ways in which this is being addressed: corporate governance codes, reform of the audit profession and so on. There are many things that are still being put in place, which may take years to achieve. There are efforts, particularly in Europe, to encourage country by country reporting designed to improve the accountability of companies in various ways: tax transparency, or the way that payments are made to countries by extractive industries. These are all strands which come together in a whole, to prevent events like Enron. Although you can never entirely prevent corporate scandals in the future, these efforts, and improved enforcement, are acting to discourage that sort of eventuality.

What steps can be taken to protect the image of accountants in the face of such crises?

I am impressed that ICAEW has put ethics at the heart of all its examinations, so you do not study things like accounting, auditing or taxation except in the context of good ethical behaviour. I think it is very important that they are trying to turn out good ethical accountants for the future. There are social expectations, on things like tax advice, which change over time and the profession has to adapt and to reconsider what it does, and be happy that it is acting in the public interest. ICAEW has been commenting on the calls for greater tax transparency and for corporates to address the issue of whether or not various types of tax planning are acceptable.

What are your impressions of the Sri Lankan set-up?

My experiences are limited. This is my first time in Sri Lanka, and it has been an eye-opener for me. It is a really fabulous country and it is great to be working with the ICASL, with which I have had some contact. I find a very forward-looking institute, very much involved in the local debate about the IFRS and IR, which seems to have established good structures for supporting its members. This conference is a good example of a good initiative in which it is involved with closely, doing things professionally and globally, and showing what can be achieved. ■

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ASOKA PIERIS,
CEO, SINGER
SRI LANKA

Portrait

CAUTION – GOOD TRAIT FOR ACCOUNTANTS: ASOKA PIERIS, CEO, SINGER SRI LANKA

Singer Sri Lanka has always had a Chartered Accountant as CEO. In this interview, Asoka Pieris, Chief Executive Officer of the Singer Group in Sri Lanka, talks of the virtues and traits of Accountants. They are a naturally cautious lot who shouldn't be over-cautious nor reckless, and instead tread the middle ground. And professionals, he says, need to understand that business is run more on common sense and less on professional knowledge.

Having done Commerce subjects for the Advance Level examination, the logical extension for students like Hiran Asoka Pieris was to do Accountancy afterwards. That was how Pieris, Chief Executive Officer of the Singer Group in Sri Lanka, became an Accountant. He took over as the Chief Executive Officer of the Singer Group in Sri Lanka on 1st of July 2010 and has been with the consumer products multinational for over 20 years, having joined Singer Industries (Ceylon) Ltd., Ratmalana, which was the sewing and TV factory of Singer as Accountant - Finance. In September 1991 he moved over to Singer (Sri Lanka) Ltd. which is the marketing company of Singer as Finance Manager. He was promoted as Finance Director of Singer (Sri Lanka) Ltd. in April 2002 and held this position up to June 2008 when he was posted overseas.

Pieris is a member of the Institute of Chartered Accountants of Sri Lanka and a fellow of the Chartered Institute of Management Accountants, UK. He won the Accounting and Finance Prize and the Auditing Prize at the ICASL Associate Level 1 examination in 1987. Pieris was actively involved in the work of the Institute early in his career, being a member of the Conference Technical Committee for a few years before a stint in Singer Asia in Hong Kong and was once a paper writer at one of the conferences. He was a lecturer for accountancy students in the 1990s, lecturing mainly in Auditing, and was involved in adapting International Auditing Standards to Sri Lanka.

His experience as a lecturer and in the world of business makes him well placed to advice Chartered Accountancy students. Pieris is firm in his belief that students must study to acquire knowledge and not just target the examination. There are far too many students who study aiming only at the examinations saying, 'these are the questions expected at the examination' and then trying to study for those questions. "In my opinion, even if a person gets through the examination by studying like this, it is not worth the effort," he stressed in an interview with The Abacus. "I think that kind of study should be discouraged. A person should study the subject and then, at the examination, be ready to take questions from any area. Acquisition of knowledge is what's important for students."

And knowledge, Pieris believes, should be used for practical application and not kept as theory. He notes that there are far too many students who study and memorize information which they regurgitate at exams. "In some examinations people are lucky to pass them by memorizing," Pieris says. "I am happy that Chartered Accountancy is NOT one of these examinations where you can memorize, reproduce and pass."

If you are an Accountant, in a few cases, you may work alone, but in most cases you may have to handle a section or a department. If you are a Chief Financial Officer, you will obviously be handling a large department. All these involve managerial skills - ability to handle and lead people.

In the field of finance, professional knowledge must be applied in practice. Pieris recalls how in his early days lecturing to auditing students in one class he explained about types of internal controls. "When I came back the next weekend, I asked them about the types of internal controls and about 80% of the students answered correctly. Then I asked the class 'out of these internal controls what are the types that are in place in CTB buses' and only about 30% of the class could answer that question." It was those who answered who were able to end up as Chartered Accountants.

Young finance professionals should make an effort to develop 'soft skills' as they proceed in their career. Pieris says it is important to encourage students and young professionals to be involved in extracurricular activities. "If you are an Accountant, in a few cases, you may work alone," he explains. "But in most cases you may have to handle a section or a department. If you are a Chief Financial Officer, you will obviously be handling a large department. All these involve managerial skills - ability to handle and lead people."

A great way to acquire managerial skills is to be involved in extracurricular activities or sports. Being a President or an Office Bearer of a society gives students the skills and know-how to handle and lead people. "If you were in a debating team or in an oratorical society, it develops your speaking and presentation skills," notes Pieris who was a member of the English Debating team and an active member in many school associations at St. Joseph's College where he was educated, becoming Head Prefect in 1981/82. Even if young finance professionals have not done any extracurricular activities in school, they should try to make up for it as university or Chartered Accountancy students or even after passing out as Chartered Accountants.

Pieris today is an active Rotarian and a past president of the Rotary Club of Colombo North. Prior to joining Singer, Pieris did his training at Ernst & Young and was Audit Manager on completion of his training. While at E&Y he was closely associated with the Practicing Accountants Chartered Students' Society, being the firm representative in 1986/87, Assistant Treasurer in 1987/88 and General Secretary in 1988/89.

It's also important for young accountants to always be involved in the total business of their organisation and not limit themselves to accounting, Pieris believes. "Accounts, information and profitability encompass the entire organization. Hence, an Accountant is not overstepping his area by looking at another section," he stressed, recalling a Chartered Conference in 1990 titled 'From an Informational Role to an Influential Role' where Hemaka Amarasuriya, present Singer Sri Lanka Chairman, was the main paper writer. "That title is a great indicator to young accountants on how they should develop their career. By providing valid information and analysis, accountants could get involved in operational areas. Of course, when you venture in to operational areas, you must also understand and value the operational areas."

And young finance professionals must be constant learners - and learn new things - while of course excelling in their core area of work, be it finance, tax, audit or treasury. "You can learn when you talk to people, when you travel, when you read, when you observe. You should also see if your learning could be applied in practice and endeavour to put it into practice."

Overseas experience can help finance professionals become more broad-minded and give insights into how the domestic market will evolve. Pieris has done two stints abroad with different Singer companies, being cross-posted to Singer Jamaica for six months where he understudied the marketing operations, and working two years from July 2008 to June 2010, with Singer Asia Ltd. in Hong Kong, initially as the Chief Accounting Officer and later as the Vice President Finance and Chief Financial Officer of Singer Asia. The two countries have totally different cultures and ways of doing work. "It is good to have overseas experience because it broadens your understanding," Pieris says. "You appreciate different cultures and different thinking, different work habits and then understand that one is not superior to the other - that all these are acceptable. It motivates you to broaden your thinking and accommodate a wider range of views." Also, he notes, when you work in more developed countries like Hong Kong it gives you an idea of what the Sri Lankan market, country and organizations will become in the years to come.

Pieris has been on the Board of Singer (Sri Lanka) since August 2004 and has been on the Boards of Singer public quoted companies in Sri Lanka, Bangladesh and Indonesia and on the Boards of Singer non-quoted companies in Hong Kong, India and British Virgin Islands.

However, working overseas could be a challenge and sometimes difficult for the family. Pieris says he was fortunate that his wife, Nilani, who is also a Chartered Accountant, and their two daughters were very accommodative. Accountancy seems to run in both families as his in-laws count three more Chartered Accountants!

Some people think that it is good to have an Accountant during a market downturn. If this is correct then it also means it is not so good to have an Accountant as a leader in a growing market. Accountants are naturally cautious and I think it is good to be cautious.

Pieris does not believe that being a finance professional necessarily gives a particular advantage to someone in the role of a CEO, noting that any kind of academic or professional knowledge and experience is very useful to a Chief Executive. "The understanding in accounts, treasury, tax, law, controls, financial management - all are very useful to me as a CEO," he explains. "Of special importance are the principles of decision-making and financial viability. Professional knowledge on finance also makes it easier to unravel complex areas like foreign exchange and risk. At the same time, in my opinion all professionals need to understand that business is run more on common sense and less on professional knowledge. It also explains why some people who do not have any academic or professional qualifications are able to run a business or an organization." Common sense, supplemented by professional knowledge, is what's required for running a business at the top.

Nor does he believe that it's particularly helpful having accountants as leaders during a market downturn. "I don't think it matters," was how Pieris put it. "Some people think that it is good to have an Accountant during a market downturn. If this is correct then it also means it is not so good to have an Accountant as a leader in a growing market. Accountants are naturally cautious and I think it is good to be cautious. At the same time, you need to be in the middle ground. You shouldn't be over cautious nor should you be reckless."


ROHAN SENEVIRATNE,
ADDITIONAL SECRETARY OF
THE MINISTRY OF DEFENCE AND
URBAN DEVELOPMENT

REDESIGNING COLOMBO – CREATING A MORE LIVEABLE CITY

The hectic construction activity going on in Colombo is changing the face of the city and skyline so fast they will be unrecognisable in a few years. Urban planners aim to make Colombo cleaner and more liveable.

BY ROHAN GUNASEKERA

The Metro Colombo region is home to much of the country's capital, human resources, technology and services. Most of the country's goods and services are generated in the Western Province and most production is shipped out of the country through Colombo port.

Ongoing urban regeneration projects are rapidly transforming the capital. The biggest is the Metro Colombo Urban Development Project funded by the World Bank. There are other programs going parallel to it.

They aim to make Colombo a more liveable city, improving its competitive advantages given the importance of urban metros to a country's economic growth, says Rohan Seneviratne, Additional Secretary of the Ministry of Defence and Urban Development. The government's target is to raise per capita GDP to US$4,000 by 2016 under its 'Mahinda Chinthana' medium term policy framework.

"To achieve this ambitious target after the end of the war in May 2009, the government reoriented its development program and especially identified the cities as its catalysts," explained Seneviratne, who oversees and co-ordinates many of the urban regeneration programs in the metro Colombo region. "We need vibrant and highly liveable cities to drive the national economy. The approach changed in 2010 with the amalgamation of the defence and urban development ministries under President Mahinda Rajapaksa and Secretary Gotabaya Rajapaksa."

The initial programs began using Treasury money. They were implemented through the Urban Development Authority, Sri Lanka Land Reclamation and Development Corporation (SLLRDC) and the Colombo Municipal Council (CMC), some with the help of the three armed forces, a huge human resource available after the end of the war.

"We can use the knowledge and expertise of the tri-forces for the urban regeneration program," says Seneviratne. As the government itself cannot fund all these highly complex and capital intensive programs, in 2011 negotiations began with the Word Bank to formulate a project to get more assistance to complement the government's ongoing Metro Colombo region urban regeneration program.

Within one year the World Bank approved a US$223 million soft loan - with low interest rates and long repayment period - for the Metro Colombo Urban Development Project. Work began in July 2012 and went parallel with other projects like the restoration of historical buildings such as the Dutch Hospital, Independence Arcade and the Race Course - complexes that were either in an abandoned or dilapidated condition - and their conversion to commercial establishments.

The Western Province consists of only 6% of the island's landmass but is home to 28% of the population

50%

Western province contribution to GDP

Rs.30,000 MILLION

Value of World Bank-funded Metro Colombo project

Rs 7,000 MILLION

Amount of contracts awarded up to now

The World Bank-funded project has three key objectives - flood control and management in the Metro Colombo region, infrastructure development and capacity building of local authorities. The flood control and infrastructure developments are underway. Yet to start is capacity building, vital for successful urban regeneration and the need for proper asset management and maintenance.

Infrastructure development began with the completion of seven public convenience complexes in different parts of the city and renovation of almost 12 km of roads. These were Sir Chittampalam A. Gardiner Mawatha, Vauxhall Street, Darley Road, and the Town Hall Square Development, including the town hall building, lawns, and Vihara Maha Devi Park. Work then started on big projects like rehabilitation of Galle Road and R A de Mel Mawatha (Duplication Road) which is ongoing. Improving 23 roads in the Dehiwela-Mount Lavinia Municipal Council area, and 24 roads in Sri Jayawardenepura-Kotte were other projects completed.

Initial flood control work involved completely restoring the Dehiwela canal and the Aluth Mawatha area canal and culvert and outfall improvements. While the CMC cleared clogged drains, the SLLRDC cleaned the main canal system which was full of debris and silt. That helps a lot when the water flow increases during heavy rains as some flooding takes place owing to localised problems like blocked drains. Rainwater storage capacity in the system is being improved as well with two lakes, Diyatha Uyana and Rajagiriya, being created to increase the storage.

"Cleaning both the micro and macro systems and creating lakes were the immediate solutions to flooding," explains Seneviratne. "Now we're focusing on the balance rehabilitation work on the canals and also pumping stations and micro tunnels to mitigate floods in the metro Colombo region. If there's a huge rain like a 400mm rainfall tomorrow, it's possible that certain parts of Metro Colombo would still go under water, because we have not yet completed the total integrated flood management solution which includes pumping stations and micro tunnels. We are halfway now. We also aim to divert flood waters before they reach Parliament Lake by building lakes in the upper catchment area to


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store water for a reasonable time during an intense rain and canals to take flood water to other river basins."

Big integrated developments like office, shop and apartment complexes of the sort planned and envisaged will need big blocks of land. Right now, available land in the city is scattered with hundreds of owners for different plots. There's no big chunk of land left anymore. That will have to be created by land pooling and acquisition from both the state and private owners, using different business models.

State land occupied by squatters and others is being freed with the provision of alternative housing for residents. One of the most important projects started through the UDA will ensure better housing for 68,500 family units in the CMC. By the end of December over 5,000 houses will be completed and many more are planned.

The authorities expect to free up to around 900 acres of land occupied by slums, shanties and squatters in the city of Colombo. Some of this will be used for economic development and given to investors, some kept for greening like parks, playgrounds and common spaces, and the balance used for re-housing families who have been shifted.

"We'll acquire private land only if really needed and we'll compensate at market rates, determined by the chief government valuer, which is now on par with market rates," says Seneviratne.

One business model being tried out is the one in Slave Island on a six-acre plot of land occupied by about 500 people who were given ownership some years ago by the then-government. Some residents occupy just 2-3 perches each, some houses are 200-400 or 800 square feet. The UDA has struck a deal with Imperial Builders of Pakistan under which the land will be freed and residents given new homes without any government spending. Imperial Builders has agreed to re-house the residents at its own cost in high-rise apartments on the same site. The residents will get Beira water front apartments. Imperial Builders will recover the cost by using the land to build a multipurpose complex and selling shopping space on the ground floor and apartments in the upper floors. This model could be applied in many areas in Colombo like the Panchikawatte triangle.

150
acres will be retained for greening - parks, playgrounds and common spaces

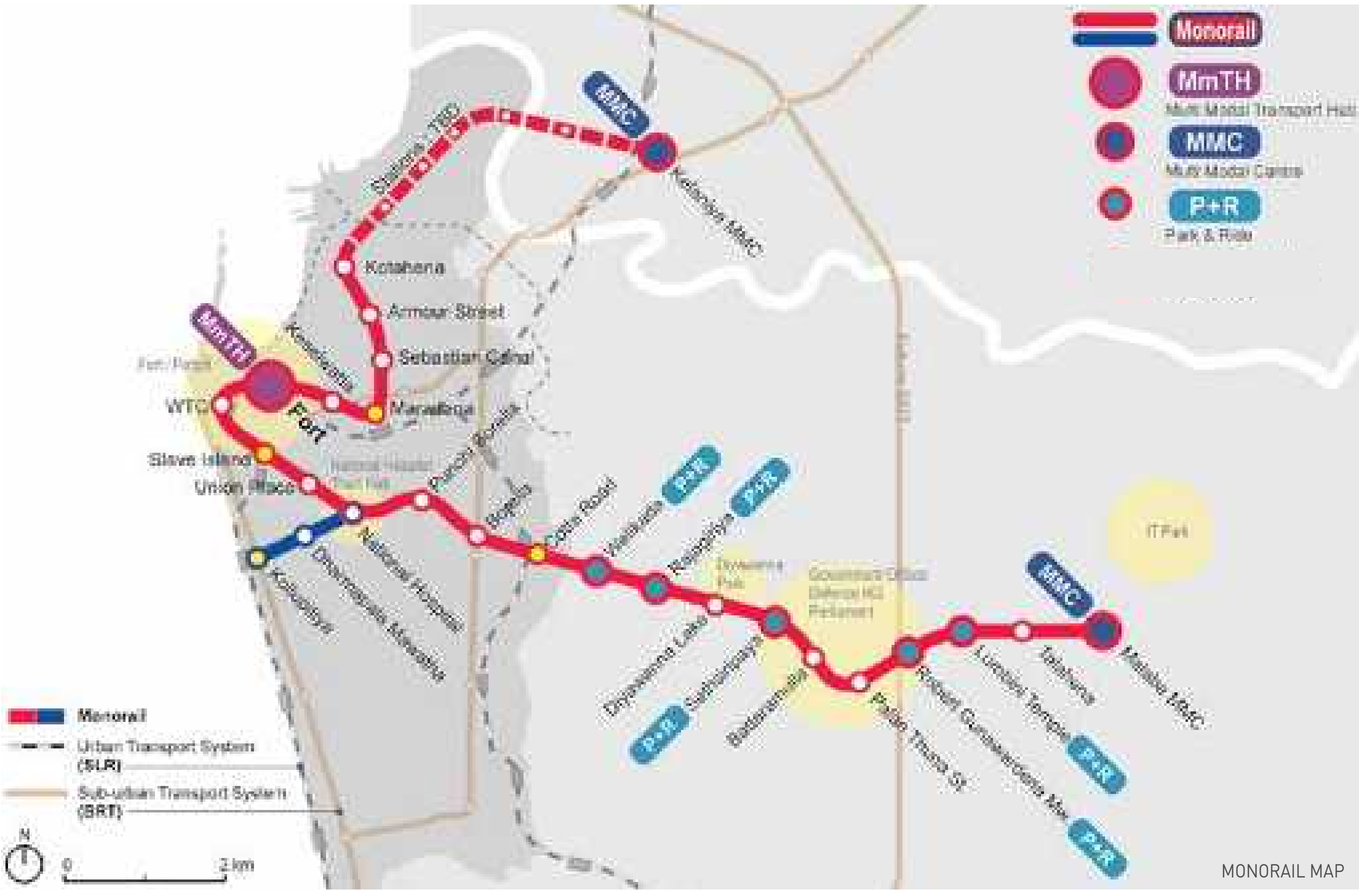
300
acres will be use for re-housing slum and shanty dwellers

A grand plan to transform the East Beira Lake area is underway with embankment improvement and construction of linear parks on which work will be over by year-end. What's envisaged is a waterfront development like Clarke Quay alongside Singapore River.

Urban planners aim to release land along the East Beira - mostly owned by government agencies like the railway and ports authority but some private land as well - to investors for businesses like shopping, hotels and entertainment. "We can pool at least 75 acres of land from different government agencies and the private sector," says Seneviratne. Construction work on the Lotus Tower will be over by end-2015. Next to it will be the Lotus Mall, a huge shopping complex. Both are financed and owned by the Telecom Regulatory Commission. Construction is by Chinese contractors.

Building of high-rises in this area will be limited as the authorities are keen not to spoil the view, which will include the Lotus Tower in the immediate surroundings but can stretch as far as Sri Pada on a clear day.

Improved transport and parking is a key component of Colombo's urban renewal program. This includes better walkability - improved and



MONORAIL MAP

widened pavements that help reduce traffic congestion as people don't have to walk on the road anymore - and one-way traffic systems. Further improvements will be apparent once the Galle Road and Duplication Road projects are finished.

"There'll be huge business potential along these two roads as the redesign provides for much more parking spaces which will make it easier to shop," enthuses Seneviratne. "In time to come, all ground floors in buildings along these two roads will be converted to shopping - it's already happening."

Private sector managed high-rise parking projects are part of the plan. These will have to be private-public partnerships. Land values and construction costs are so high such projects will not be commercially viable if done by private developers alone. That's why none have come up so far, despite the acute shortage of parking space.

"If you want to really recover such costs, the parking fee for just one hour will be so high that it'll be unaffordable for most people," explains Seneviratne. "Initially, we should go for distributed parking towers, not very tall - maybe 4-5 floors. The government and private sector will jointly bear the costs. But the operation will definitely be by the private sector. Once the economy is thriving and demand rises the private sector will come to build them."

A similar model is envisaged for the planned light rail public transportation system to improve mobility within the city. The elevated monorail LRT project, to be implemented by the transport ministry, is one of the recommendations of a transport master plan for Metro Colombo done by Japanese consultants. This will start at Malabe, go through Rajagiriya to Town Hall, Maradana and then the Fort station from where there'll be links to Bambalapitiya and Kotahena under stage one. Later, in stage two, the LRT will be extended to Kelaniya. The capital cost will have to be borne by government, using a soft loan, but the system's operation and maintenance could be in the hands of the private sector. This is the model used abroad given the highly expensive and complex nature of such projects. Also planned are elevated expressways to provide faster links within the city and reduce traffic jams. The master plan also envisages BRT (Bus Rapid Transit) systems in certain areas and better use of the existing railway, especially to the southern suburbs.

30%

of wetlands and marshes in the Metro Colombo region have been lost to illegal and legal land filling, leading to loss of rainwater storage capacity

Solid waste management is another key aspect of the project. Even though recent government waste collection and control efforts have led to a cleaner city, the 1,200 MT of garbage collected daily in Colombo and suburbs are still dumped in an unsanitary manner in Meetotamulla and Karadiyana. The bad odour pervading the area and effluent going into nearby waterways have created an environmental disaster. The plan is to collect and transport the waste by rail to an abandoned limestone quarry used for cement manufacturing in Aruakkalu, Puttalam.

"It will be s sanitary landfill - not a dumping place," Seneviratne stressed. "Then we have a permanent, environmentally friendly, sustainable, and economical solution for solid waste management for the Metro Colombo region."

900

Acres of land in the CMC can be freed by removing slums and shanties and other dilapidated houses

450

Acres will be given to investors to develop

ENGINEERING SOCIAL NETWORK

Rohan Seneviratne is an electrical engineer and actually on secondment from the Ceylon Electricity Board (CEB) which he joined in 1986. He worked there for 26 years, rising to the rank of deputy general manager. After graduating as an engineer he did a Masters in Business Administration, followed by post-graduate studies in electric power distribution and computer technology. He is a Fellow of the Institution of Engineers of Sri Lanka and a Fellow of the Institute of Engineering and Technology, the UK.

In 2011 Secretary to the Defence Ministry Gotabaya Rajapaksa invited Seneviratne to join the ministry as an additional secretary. After some initial reluctance owing to involvement in a number of CEB projects, he finally began working part-time. This was the time the urban development function was amalgamated with the Defence Ministry, which gave him an idea of the potential scope of work. Seneviratne came full time to the ministry in March 2011 and soon after started the Metro Colombo project.

Being an engineer helps as many engineers in other organisations he works with, such as the CEB, CMC, the Water Board, Land Reclamation and UDA, are friends. "The Secretary gave me autonomy and authority. My background in engineering and network of friends working in all these organisations, many of which have a lot of engineers - CMC has 100 engineers - made it easier for me to do inter-agency co-ordination," Seneviratne explains. "That's the most important part to implement a project." ■

68,500

Number of slums, shanties and other dilapidated houses in CMC whose occupants will be shifted and given better homes

PLANNED BEIRA LAKE WATERFRONT PARK

INTEGRATED PLANNING

Integrated master planning is very important to build a liveable city. "Three components are needed for a liveable city - high quality of life, sustainable environment and a vibrant, competitive city economy," says Seneviratne. "To create it the two major pillars are integrated master planning and development, and dynamic urban governance."

The absence of integrated master planning results in ad hoc development, like how the new surface of a road is dug up to lay water pipes. Or a housing project might come up where a light rail is planned.

Integrated master planning has not happened properly in the last few decades. Even though the UDA had master plans, enforcement was not strict enough. And there is no point in doing a master plan and keeping it on the shelf, as has happened in the past.

"Now only we are focusing hard on implementation," explains Seneviratne. "If we do not have proper planning, implementation will be very difficult."

A good example of integrated planning and inter-agency coordination is the manner in which future utility requirements have been incorporated in the Galle Road and Duplication Road projects.

"We laid all future electricity cables in discussion with CEB and all overhead lines were converted to underground. We have already built the ducts for big cables going to come in the Metro Colombo electricity distribution project. For the next five years' water requirement, we've already laid water pipes. Telecom ducts are already laid. Sewer lines for Hyatt Hotel are already laid," says Seneviratne. "We looked into future requirements to avoid digging roads again. All these co-ordinated efforts were possible because of the direction of the Secretary, Ministry of Defence and Urban Development Gotabaya Rajapakse. If not for him, most of these things would not have happened. He's a visionary leader who trusts others and delegates authority." ■


ATHULA AMARASEKERA,
DIRECTOR OF SINGAPORE'S
DESIGN TEAM 3 PRIVATE LIMITED

CITY NEEDS OVERALL SPATIAL AND URBAN MASTER PLAN

City dwellers might feel living conditions are going from bad to worse given Colombo's worsening traffic jams and pollution but the capital's problems are not as bad as other urban agglomerations in the region. In this interview, architect Athula Amarasekera, Director of Singapore's Design Team 3 Private Limited, talks of the grand urban renewal program underway, its strengths and weaknesses, and the prospects of making Colombo South Asia's 'World City'.

INTERVIEW

Athula Amarasekera

What in your view of the main problems urban planners face in making Colombo a better city?

The problems faced by urban planners of Colombo are far less than in any comparative capital city of a country, especially of a population in the region of 15 - 30 million. Colombo, due to a high degree of social welfare by successive governments on both sides of the political divide, much higher than seen in any Third World country, has seen comparatively low rural to urban migration to its capital city. Thus the problems faced in the city are far less compared to any other city of South Asia or majority of cities of South East Asia. That also makes it much easier to remedy the problems as they are far less than in comparative cities. Also, it has one of the smallest urban populations for a comparative nation and its capital cities.

A few cleverly crafted and directed policies may result in a vibrant world-class city.

We in Sri Lanka also inherited and kept on upgrading a reasonable water supply and power system to match the growth of the past. The rigid and archaic planning approval system resulted in at times 18 months to get planning approval. That prevented growth and in turn demand for infrastructure, which kept a check on demand for urban infrastructure.

But, the problems arise with the rapid growth now anticipated in the post war - Asian Growth Century. Colombo is likely to grow as South Asia's 'World City' to serve greater South Asia the same way Singapore serves South East Asia or Dubai serves the Middle East. Whether the planners and leaders like it or otherwise, recent studies indicate that the actions of the Ministry of Defence and Urban Development and private developers are taking Sri Lanka in that direction of making Colombo South Asia's World City.

In that context, there will be greater demand for open spaces, need to protect its open spaces and vistas, and the need to create better urban spaces. Travel times will need to be improved, basic infrastructure such as water, power, and sewerage needs to be provided. In essence the city will need an overall spatial and urban master plan.

What are the five most important things Sri Lanka needs to do to make the urban metropolitan area better - with cleaner air and water, smoother transport and better living and work spaces?

We were part of a recent study for the Colombo Commercial Hub, commissioned by the Central Bank, in which Ernst & Young, Lanka Logistics and ourselves evaluated the readiness of the city in terms of urban infrastructure. We found the state infrastructure service providers in water and electricity well prepared to cater to the demand. Sewerage was a major item of concern, but may be mitigated partially by legislative means such as mandatory use of recycled water.

Colombo is likely to grow as South Asia's 'World City' to serve greater South Asia the same way Singapore serves South East Asia or Dubai serves the Middle East.

On smoother transport, this was being partially addressed by the monorail linking the city with the Kotte Municipal Corridor and a likely electrified railway. A lot needs to be done to reduce travel time in the urban core such as through introduction of urban expressways.

On urban living and workspaces, we see major improvements happening under the auspices of the Ministry of Defense and Urban Development such as Independence Square and sub projects under the Metro Colombo World Bank project where we are likely to see public walkways around the entire East Beira, better open spaces, and parks.

We need to see the Special Primary Residential Zone protected, the urban amenity upgrading such as the Independence Square carried forward in the entire city under a systematic city plan to make Colombo an inclusive, livable city.

The city we create needs to be a mixed used, vibrant city that would be the global gateway to Sri Lanka.

That would include alternative and cleaner means of transport such as walking or cycling to your work by linking existing public spaces that are in the process of being improved. The service population that will continue to live in the suburbs will need to be provided with cleaner means of transport and travel time from home to work not exceeding one hour.

We need to ensure that links to future urban transport means such as monorail and rail stations are protected and enhanced and for that there needs to be local development guide plans in place so that the City evolves a well-linked series of public spaces interconnected by appropriate transport.

How do you assess the Colombo metropolitan urban renewal project that's under way and the construction activity that's changing Colombo's skyline?

The Colombo Metropolitan urban renewal project is likely to result in major changes to the city, unimaginable a few years ago as happening in our lifetimes, to happen in the next seven years. It will see reversal of encroachment of state land, elimination of unconducive urban settlements mostly occupying state land, a paradigm shift of the service population to the northern part of the City. It will release a major land bank for development and see the creation of conducive public spaces such as walkways around waterfronts in the city.

We need to see that these opportunities are collectively exploited to create more conducive and livable spaces for the city's service population as envisaged. That includes ensuring that the land bank that is made available is equitably used for economic activity fit for a 'World City', modern city living, and public spaces and amenities.

We need to see it as an opportunity to create a vibrant and inclusive city. The vibrancy is generally created by a live-in population within the city with adequate amenities, cleaner and efficient infrastructure and transport.

To create that vibrant city with a live-in population, you need to create infrastructure such as water, power, sewers and roads through proper planning policies.

That land bank also gives us the opportunity to create urban indoor and outdoor spaces to 'LIVE, WORK AND PLAY'; to make Colombo a 'Global City' or destination. It needs a far higher quantum of quality retail spaces, a higher number of hotel rooms, entertainment and food outlets. It also creates the opportunity to build an urban housing stock and an office component for value added service and IT/regional company headquarters based in Sri Lanka.

The building boom is unprecedented in size and complexity. A similar phase after the economy was liberalized in 1977 led to fast, uncontrolled and badly planned growth. In this phase, is there enough integrated, multi-disciplinary and long-term planning and execution?

What you actually see is a clearing up and a beautification that will lead to a better city, but integrated, multi-disciplinary and long-term planning and execution is lacking. The anticipated demand is far in excess of what is seen by policy planners and what is done in terms of infrastructure needs greater enhancement.

The city moving forward will need a Concept Plan and detailed local plans flexible enough to allow the market to make the appropriate calls rather than bureaucrats dictating land use to the developers.

The city will need a Concept Plan and detailed local plans flexible enough to allow the market to make the appropriate calls rather than bureaucrats dictating land use to the developers.

The urban resettlement zone needs to be provided with new social infrastructure such as markets and schools.

The legal framework to create integrated developments is lacking. The condominium law needs to be totally rewritten to avoid the scenario of badly managed developments.

Is adequate consideration being given to prevent existing problems like poor solid waste management, walkability on roads, frequent floods, and inadequate city space for the public?

In all these aspects, we are far ahead of our South Asian neighbours due to the action being taken since 2009 mostly under the Ministries of Defence and Urban Development & Highways.

On solid waste management at the macro scale, the government is addressing the issue of disposal with better-managed landfills in the north-west leading to the closure of the unsightly and smelly landfills in Colombo 15, which is a major improvement. On a micro scale, we need to educate and move towards a recycling society that will reduce the disposal quantum as well as job creation through the recycling industry. The CMC is now forward looking in allowing modern methods of solid waste management in larger development and better management of larger properties, but the aspect of social education needs to be taken forward to achieve a far better level of recycling and reduction in solid waste disposal.

Walkability on roads - one can see greater emphasis on pedestrian-friendly roadways and dedicated pedestrian walkways created. Such dedicated walkways such as along canals and water bodies can be a far safer means of mobility than roadside pavements. That needs to be taken up in a broader scale in the entire city, whilst also looking at elevating and diverting the long distance traffic away from pedestrian and urban centers perhaps to a new network of elevated roads. We need to see dedicated public plazas created. Cities such as Singapore, Melbourne and Paris all have a mix of public walkways created along roads, along waterfronts, and derelict rail lines.

Flooding of low lying areas, at the macro city level as well as micro level flooding, has been effectively handled, with only few areas needing to be addressed such as algae growth in waterways, and pumping.

On the issue of inadequate city spaces for the public, you can also see major improvements happening, whilst the next major upgrade would

INTERVIEW
Athula Amarasekera

WHAT COLOMBO'S SKYLINE WILL LOOK LIKE

The monorail is expected to relieve the congestion along the Battaramulla Corridor and is validated as viable.

be the development of public walkways around the East Beira.

Colombo also lacked a visible icon. The Nelum Tower by the TRC, which does not fulfill any technological or functional need, however, will be a visual icon and lead to the creation of a new waterfront public domain in the East Beira. The initiatives of regaining existing parks and open spaces for the greater community seen in the revitalized Vihara Maha devi Park and waterfront areas in Kotte, need to be enhanced and carried to all neighbourhoods and communities. If you really look at the City from the air, Colombo has a large extent of public spaces, which are actually concealed from public view and not available for public use. They need to be regained for the greater use of the local communities.

What is your opinion of the plans to improve the transport system including mass transit projects that are planned alongside the Metro Colombo programme?

It has to be recognized that conditions for mass transit do not exist in Colombo. Mass transit requires large densities and 6 am to midnight activities for it to be sustainable. Such conditions do not exist in Colombo. There is a separate initiative under the Ministry of Transport funded by Japan for a monorail and a system of urban elevated highways. These initiatives need to be linked to urban development plans of the UDA in a way that urban transport and urban development are mutually sustainable.

The monorail is expected to relieve the congestion along the Battaramulla Corridor and is validated as viable. The issue in developing a mass transit project for Colombo is Colombo's relatively low urban density and low urban catchment that does not allow viable mass transit. Even in Singapore new mass transit projects are considered national investments and the Government only seeks to make an operational profit. Thus unless we see a major increase in urban density through integrated urban development, mass transit is likely to remain unviable. Thus we need to seek alternative and viable means of public transport other than mass transit.

Do we need a separate management agency to manage this area once redeveloped?

What major cities do is, the implementation of redevelopment is undertaken by a separate management agency, which after the maturing of the development will hand the area back to the traditional institutions such as the urban Local Councils. E.g. in Melbourne, revitalizations such as Melbourne Docklands were handled by the Victoria State Growth Authority and when the development matured it was handed back to the Melbourne City Council. This recognizes two facts. The traditional urban Local Authorities do not have the capacity to handle urban mega developments and once developments are in place, it is the traditional urban Local Authorities that have the ability to serve the local community best having evolved their practices in the interim. Thus the answer properly is not in undermining the traditional institutions, but recognizing their weaknesses and strength and evolving appropriate mechanisms that facilitate development as well as subsequent management.

For Colombo, the main Planning Agency, the UDA, needs major skill and competence upgrading if the task ahead is to be handled competently.

Can you briefly describe the work that you are doing in Sri Lanka such as the master plans for Bolgoda marina, Colombo Commercial, On Three 20 and the Green Path hotel and Hambantota Special Investment Zone?

New high-rises emerging in the City such as the On Three 20 condominium at Union Place, the new Cinnamon Red, and Access Tower 2 are pioneering in these market segments and the next generation of projects to follow. Also I believe that development has to go to the regions. Thus we have been involved in the Commonwealth Games bid, and some of the resort developments on the South West coast, Kalpitiya and Bolgoda. We try to generate and peg projects to suit different market segments that are viable for its developers as well as fulfill a social and economic function for the nation.

FOCUS ON - Technical

Better disclosures given more recognition in 50th Annual Report Awards Competition

'Reach for the Gold' as CA Sri Lanka opens registrations for prestigious contest

The coveted Annual Report Awards Competition organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) got off the ground with a press conference held on 5th August 2014 at Jaic Hilton.

The Awards celebrates its landmark 50th anniversary milestone this year. In keeping with this year's landmark milestone, this year's competition will revolve around the theme 'Annual Report Awards Reaches Gold.'

Entries are now open for the competition which honours and recognizes corporates for their outstanding corporate governance and excellence in financial reporting.

Recognized as one of Sri Lanka's most celebrated corporate level competitions, the Annual Report Awards Competition is open to any organization that produces an annual report, from multinational companies to small time community groups and small scale establishments.

Awards will be presented under 23 categories which will include a main winner and two runners up under each category. Evaluation and judgment is passed according to established criteria which does not include the actual financial position or the actual financial / non-financial performance of a company.

The awards recognize and select winners based on their ability to effectively communicate their company's objectives, highlights, performance, personnel and management to a select audience.

The 50th Golden Jubilee will be further boosted with the Colombo Stock Exchange coming on board as the 'Strategic Partner' and Lanka Ratings Agency Limited as the 'Event Sponsor' for this year's competition.

President of CA Sri Lanka Arjuna Herath noted that when initiatives are often short-lived or short-sighted, the prophetic vision of CA Sri Lanka's founding fathers in creating a competition of such significance way back in 1964 was indeed impressive, and its endurance over the past 50 years at a time when even the most unique of ideas fail to make it to the top, was yet another very impressive achievement.

"There is no doubt that the Annual Report Awards Competition has increased in stature and significance over the years, and the growing number of participants each year for this prestigious competition is testimony to the competition's significance," Herath said.

He emphasized that last year, in comparison to previous years, the competition received its highest number of applications, which means more and more organizations understand the important elements of transparency and accountability

"I am certain this year's Golden Jubilee Competition will be the beginning of a new journey towards renewed corporate reporting excellence providing an impetus to growth and development of Sri Lanka's economy," he added.

Chairman of the Annual Report Awards Committee Tishan Subasinghe emphasized that the Annual Report Awards Competition has been instrumental in shaping the quality of annual reports of corporates to the highest standard, taking financial reporting to a whole new level in Sri Lanka.

Subasinghe added that this year the competition has updated the checklists to absorb new changes to the accounting standards.

"Some marks have been re-allocated in recognizing the importance of certain disclosures. Due recognition has been placed on certain mandatory and voluntary disclosures with respect to related party transactions and corporate governance disclosures in terms of allocation of marks," he added.

Vajira Kulatilaka, Chairman, Colombo Stock Exchange, said the standard of Annual Financial Reporting of Sri Lanka has improved tremendously over the years.

"An annual report serves as a vital instrument for shareholders in making investment decisions and with the development of annual reporting today it has also become an important source of information to a larger group of stakeholders. The improvement that Sri Lanka has achieved in the sphere of financial reporting has contributed significantly to the development of the capital market."

While congratulating CA Sri Lanka for pioneering excellence in annual reporting by organizing these awards for 50 years, he also commended the role played by CA Sri Lanka as the national body of accountants in the development of the country's financial reporting framework.

Chief Executive Officer of CA Sri Lanka Aruna Alwis said that since its launch in 1964, the Annual Reports Awards Competition has been a pioneer in helping the corporate sector boost its transparency element in financial reporting and every year the competition sees the incorporation of new criteria to help the competition's relevancy.

"Integrated reporting has been a very topical subject in the corporate arena over the recent past, and the 50th An-

The improvement that Sri Lanka has achieved in the sphere of financial reporting has contributed significantly to the development of the capital market.

nual Report Awards Competition will see the inclusion of a new category focusing on Integrated Reporting, to further encourage organizations which have adopted this internationally mooted trend," he added.

This year's competition will follow a strict and in-depth judging process in selecting the winners for the Golden Jubilee competition. The judging process will follow an initial selection process, subsequent to which shortlisted applicants will face an intense technical review, and this will follow an intensive screening process which will be conducted by the final panel of judges. Judging will be purely on merit irrespective of industry sector.

New auditing standards implementation issues explained at seminars

CA Sri Lanka organized a seminar series from July to September 2014 to promote better understanding of the current Sri Lanka Auditing Standards (SLAuS) under the Clarity Project published in the Sri Lanka Auditing Standards and Sri Lanka Standard on Quality Control 1 - 2011. These are effective for audits of financial statements for periods beginning on or after 1 January 2014.

The seminars provided a comprehensive learning experience on the latest Sri Lanka Auditing Standards. The seminars included a full review of the Sri Lanka Auditing Standards applicable from 1 January 2014 and subsequent changes. They covered the fundamental concepts, illustrated with practical examples; and provided the opportunity to discuss issues arising from the implementation of the new Sri Lanka Auditing Standards. The Seminar Series targeted both the users at Application Level and Practitioners at Implementation Level and the participation was positive.

Free awareness workshops for SMPs on using Audit Manual

CA Sri Lanka organized a case study based workshop for the benefit of Small and Medium-sized Practices (SMPs) on 26th August and 2nd September 2014.

This workshop facilitated SMPs to apply Clarified Auditing Standards for the audit of SMEs.

The two-day workshop was designed to enable SMPs to carry out audits of SMEs in compliance with the Sri Lanka Auditing Standards and other Best Practices.

The workshop enhanced the technical expertise and knowledge in conducting audits during the sessions for the purpose of delivering sustainable audit service to their clients.

CA Sri Lanka has scheduled more such awareness sessions in Colombo as well as in selected regions outside Colombo from August 2014 to February 2015. The workshops are offered free of charge, with CPD Accreditation.

FOCUS ON - Technical

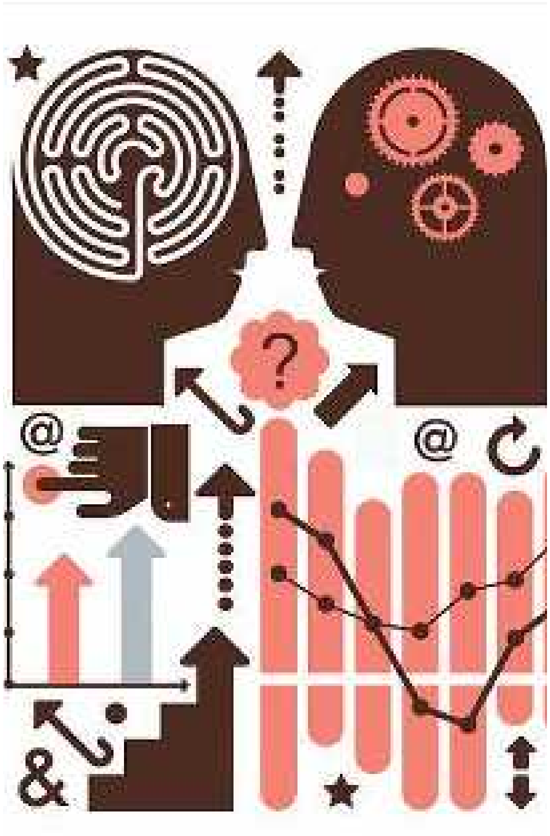
New SLFRS standards coming in 2016, 2017

Sri Lanka has converged with International Financial Reporting Standards from 01st January 2012. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has the sole authority in promulgating Accounting and Auditing Standards in Sri Lanka under the Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995.

Accordingly, CA Sri Lanka has issued three new Sri Lanka Accounting Standards on which the effective dates are stated below:

STANDARD	EFFECTIVE DATE
Sri Lanka Accounting Standard – SLFRS 9 – ***Financial Instruments***	No mandatory effective date. Entities are supposed to adopt voluntarily.
Sri Lanka Accounting Standard – SLFRS 14 - ***Regulatory Deferral Accounts***	Financial period beginning on or after 1 January 2016.
Sri Lanka Accounting Standard – SLFRS 15 - ***Revenue from Contracts with Customers***	Financial period beginning on or after 1 January 2017.

Sri Lanka Accounting Standards Seminar Series 2014



A series of seminars has been organized to get to grips with the very essence of Sri Lanka Accounting Standards 2014 aimed at practitioners, preparers of financial statements, regulators and academia who seek to gain an in depth understanding of SLFRSs.

The seminars began on 12th September 2014 and will continue till 16th December 2014 at the CA Sri Lanka Auditorium.

The seminar series organized by CA Sri Lanka will focus on a full review of the Sri Lanka Accounting Standards, applicable from 1 January 2012 and subsequent changes, fundamental concepts illustrated with practical examples, and comprehensive calculations and case studies on practical scenarios.

They will also illustrate how IFRICs and SICs correspond to each standard and give participants the opportunity to discuss issues arising from the implementation of the new Sri Lanka Accounting Standards.

INVESTMENT:

STUDENTS
LKR 1,000/- net per session & for entire session LKR 25,000/- net per person
MEMBERS
LKR 1,300/- net per session & for entire session LKR 30,000/- net per person
OTHERS
LKR 1,500/- net per session & for entire session LKR 35,000/- net per person

For further information and registration, contact:
Shavinda De Silva
Tel: +94 (0) 11 2352000 Ext: 1438 | Fax: +94 (0) 11 2352067
E-mail: technicalseminars@casrilanka.org

Update

Creating value for owners through quality financial reporting

The importance of adopting quality financial reporting and governance for the benefit of an organization and how that benefit creates value to the owners of the organisation was highlighted at a programme organized recently by CA Sri Lanka.

The programme, which focused on the relevance of reporting, both externally and internally, also identified commonly encountered "sins" in reporting, and the limitations of corporate reporting.

The programme, which featured two highly competent resource persons, Bachchi Samahon-Oumar and Richard Ebell, discussed matters relating to fraud and the need for due diligence by an investor. They also touched on factors constraining regulation, while emphasizing the important role of people and honest communication in good governance.

The programme saw the participation of directors, CFOs, general managers, finance managers, accountants, auditors and business consultants.

Samahon-Oumar shared a personal experience on the start-up stage of a company, and creating value for shareholders, while also touching on the adequacy of financial information in public traded companies.

Ebell gave an overview of lessons learnt from major frauds, and what governance is and how it helps. He also shared his experience on essential elements of governance and how regulation must be effective.

Bachchi Samahon-Oumar has 20 plus years' experience in finance and management. He has worked at Syringa Networks LLC as Vice President / CFO for the last twelve years. Syringa owns and operates a state-wide Fiber Optic Network serving the telecommunications industry in the US States of Idaho and Utah.

Richard Ebell is a fellow of CA Sri Lanka with 37 years of post- qualification accounting, commercial and general management experience. He worked for Hayleys PLC for many of those years, in finance and operations, and was the Finance Director when he left the company in 2009. He now serves as an Independent Non-Executive Director of Finlays Colombo PLC, Laugfs Capital Ltd, and Softlogic Holdings PLC.

The programme concluded with a panel session which included the speakers and Suren Rajakarier, Partner - KPMG. The session was moderated by Nilanthi Sivapragasam, Chairperson of the Financial Reporting Faculty. ■

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Update

Library launches *home delivery service*

The CA Sri Lanka Library, as a part of a series of measures to further upgrade and widen the scope of services provided, recently introduced a home delivery service of library books and documents to its users.
"Due to this innovative measure, the library user does not need to waste time in long queues and travelling and can now enjoy all the CA library facilities in the comfort of their homes," Librarian Sarath N. Kumara said.
"The service is provided at a very reasonable charge for library users all over the country."
Through the online library service system the user can also enjoy all in-house library services such as reservations, online searching for availability of books, placing orders for home delivery services and settling fines and patron management.
Because of the library's reputation for outstanding facilities, in addition to members and students, many research institutions often patronize the library for reference material. Even the National Library of Sri Lanka is now a corporate member of the CA Sri Lanka Library
The library caters to the needs of members and students of the institute while also extending its services to corporate members. The CA Sri Lanka library also provides its users with internet and photocopying facilities. The library collection includes books, periodicals, newspaper articles, CDs and DVDs on CA seminars and programs, past questions and answer papers, conference manuals, study packs of CA, CIMA, ACCA and ICAEW institutes, annual reports, case studies and IELTS collections, CPD seminars (manuals and documents), photographs and CA journals.
The book collection includes books on accounting, auditing, management, economics, commerce, taxation, law and IT.
The library is open for all users from Tuesday to Sunday from 8.00am to 7.00pm. It is now on the 1st Floor of the old wing, with a new look and additional space. ■

The library user does not need to waste time in long queues and travelling and can now enjoy all the CA library facilities in the comfort of their homes

CA Sri Lanka - DUKE CE Programme on strategic thinking oversubscribed

The second programme by the internationally renowned Duke Corporate Education (DUKE CE) on strategic thinking organized by CA Sri Lanka held in Colombo recently proved to be an all-round success with the two-day programme being oversubscribed and the organisers having to accommodate more participants than the originally planned number due to overwhelming demand.

11

Number of consecutive years Duke CE has been ranked the world's number one in Custom Executive Education by UK Financial Times and Business Week since 2003 to 2013.

The programme was specially designed for fast growing economies such as Sri Lanka.

It drew management level officials from leading corporates in Sri Lanka including Softlogic Holdings PLC, Commercial Bank PLC, Hemas Holding PLC, Zillione Group of Companies, Ceylon Pencils Co. Ltd., Millennium IT, Peoples' Bank, RAM Ratings Lanka, MAS Active, Commercial Credit Limited, Linea Aqua (Pvt) Limited, Abans Group, Pership Group, LOLC Micro Credit Limited and Sunshine Holdings PLC.

They were inspired on how to invigorate their business strategy whilst becoming effective business leaders who inspire change across corporates.

Speaking soon after the programme, Kanchana Silva, Vice President - Business Strategy & Projects of Zillione Group of Companies, said the programme was boosted with excellent networking opportunities while being supplemented with world-class facilitators.

"The CA Sri Lanka - DUKE CE Programme was one of the best executive training programmes that I have ever attended, and gave me new insights to the strategic thinking process," Nishanthi Dias, Finance Manager of Ceylon Pencils Co Ltd said.

Adrian Perera - Managing Director- RAM Ratings Lanka said that the programme was 'very well structured,' while Erandi Wickramaarachchi, Chief Financial Officer of Softlogic Holdings PLC said that the programme was very good and the two foreign resource persons who conducted the programme were excellent.

"Overall, the workshop was very beneficial for me to reflect on certain matters and most importantly the programme helped me gain vast amounts of knowledge in decision making," Dinesh Perera, Deputy Director of Abans Group said.

Perera's sentiments were echoed by Chamil Fernando of Abans Engineering (Pvt) Ltd, who emphasized that the two resource persons, Tony and Nikhil, conducted a valuable workshop which helped him enhance his knowledge. "They were practical and used very clear examples to help us understand difficult areas," Fernando said.

Dhanesh Ranatunga of Linea Aqua (Pvt) Limited said that the programme was excellent as it got participants to engage in all topics.

"The programme helped me to think about the role of a differentiator, while changing the game and being able to add value to the change," said Sean Silva of Pership Group.

Deidre Kandappa, Head of Human Resources of Linea Aqua noted that the trainers were well conversant with the subject and the fact that they got the participants to interact across all areas was an added boost to the programme. The work done by the participants during the programme was an endorsement of their learning, Kandappa added.

The CA Sri Lanka-Duke CE Strategic Thinking programme was conducted by Dr. Tony O'Driscoll, Executive Director of DUKE CE, who has an 18-year industry career, having held leadership positions with Nortel Networks and IBM and Prof. Nikhil Raval, Managing Director of Duke CE India Ltd., who comes with close to two decades of combined experience in Corporate, Consulting and Academia.

In October last year, CA Sri Lanka introduced Duke CE for the first time in Sri Lanka by conducting a programme on 'Strategic Leadership: Leading Effective Execution in Uncertain Times'.

Update

Tie-up with BPP offers high quality study material

We are very happy to have onboard BPP who are synonymous with the publishing of high quality, world class standard study materials

In its continuing efforts to offer its mammoth student base the best of world class services, the Institute of Chartered Accountants of Sri Lanka recently tied up with the United Kingdom's BPP Learning Media which will publish all study material related to the recently launched new curriculum of the institute.

Documents pertaining to the tie-up between CA Sri Lanka and BPP were exchanged by BPP's Managing Director Kieran Rice and CA Sri Lanka's President Arjuna Herath in Colombo.

During the meeting they discussed matters pertaining to the development of CA Sri Lanka's study material, while special attention was also paid on how to further enhance the process of learning of students, with the support of teaching colleges.

BPP is a leading international publisher and a specialist publishing company that provides study texts to over 186 countries around the world.

"We are very happy to have onboard BPP who are synonymous with the publishing of high quality, world class standard study materials," Herath said.

He noted that CA Sri Lanka was continuously endeavoring to offer its stakeholders including its 44,000 students the best of services and facilities apart from a globally recognized professional qualification in chartered accountancy, and therefore the agreement with BPP was yet another initiative in the institute's efforts to provide the best of the best to all its stakeholders.

According to the agreement, BPP will develop CA Sri Lanka's study materials, practice kits and lecture guides relevant to the new 2015 curriculum.

The new CA Sri Lanka curriculum which comes into effect from next year is designed to ensure that the future chartered accountants go beyond the traditional financial role and become true partners in business who will create value, enable value, preserve value and report value to the organisations they serve, while partnering businesses through financial leadership.

CA Sri Lanka promotes groundbreaking 2015 curriculum in Kandy

In its continuing efforts to propagate the importance of a relevant and globally recognized professional qualification in accounting, the Institute of Chartered Accountants of Sri Lanka recently unveiled its newly launched groundbreaking curriculum in Kandy.

The unveiling in Kandy took place in the presence of the chief guest Tikiri Kobbekaduwa, Governor of Central Province and a host of corporate leaders, principals and teachers.

The new CA Sri Lanka curriculum which will come into effect from next year was highly praised by the participants who termed the new curriculum as a 'radical overhaul' of the entire structure.

Shamil Peiris, Group Finance Director of Central Finance Co. PLC addressing the event which was held under the theme 'CA Sri Lanka's Way Forward,' said that it was no secret that the old curriculum generated Chartered Accountants who were very good in financial reporting, account reconciliation and other core competencies.

"However, in practical real life business situations, we saw that sometimes there was lack of judgment, attitude, soft skills and knowledge in other important areas such as risk management, HR, marketing, import/export, forecasting, modeling and economic implications on business. Communication skills are a problem to many and as a result their full potential cannot be unleashed which is indeed a pity," he noted.

"But we have witnessed today a radical overhaul in the entire structure of the curriculum," Peiris said of the new curriculum which aims to produce a new breed of chartered accountants who will utilize their unique financial knowledge to spearhead businesses across all sectors from 2020 and beyond.

Peiris said that the skills pillar will comprise not only the all-important IT sphere but would extend to include communications all the way up to public speaking.

"As an employer of Accountants, I see a future where there will be a pool of talent for employment with hardly any of the deficiencies that we were used to seeing before. The Accountants will fit in to the entire Management Team like cog wheels in a Swiss watch. I can see a drastic reduction in the time taken for new graduates to be fully productive. I can see our graduates moving up rapidly in the organizational structure crossing the departmental boundary lines as if they did not exist," Peiris emphasized.

CA Sri Lanka President Arjuna Herath; Chairman - Education & Curriculum Development Taskforce Manil Jayesinghe; and Chief Executive Officer Aruna Alwis were also present at the event.

Update

Channa Gunasekera wins IPM People's Leader – *Finance award*

Chief Finance Officer of South Asia Gateway Terminals (Pvt) Ltd. (SAGT), Channa P.A. Gunasekera, was honoured with the prestigious 'People's Leader in Finance 2014' award by the Institute of Personnel Management (IPM) at a gala ceremony held recently on the sidelines of the annual National Human Resources Conference.

Channa, a fellow member of the Institute of Chartered Accountants of Sri Lanka, was honoured for his significant contributions towards the finance sphere as well as in developing the organisations he has served, and for uplifting and supporting the performances of his teams.

An old boy of Royal College, Channa is also a fellow of the Chartered Institute of Management Accountants, UK and also a Chartered Global Management Accountant. He holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Counting over 20 years of experience in the areas of finance, assurance, strategy, project management, commercial, business development, human resources and business start-ups, Channa commenced his career at Ernst and Young in 1994 as an Audit/Accounts Trainee, where he went on to become Assistant Manager.

Channa also spearheaded the financial arms of several leading blue-chip companies such as Browns & Company PLC and John Keells Holdings PLC. He also served as the Chief Financial Officer for Sri Lanka and Maldives at the Hongkong & Shanghai Banking Corporation Limited.

Channa also served in the Council of CA Sri Lanka and was also a Financial Specialist on a voluntary basis for the Strategic Enterprise Management Agency of the Government of Sri Lanka.

Apart from his position as CFO, he is also the Acting General Manager of Human Resources at SAGT which operates the Queen Elizabeth Quay in the Port of Colombo, and is a BOI flagship status entity. ■

Mutual Funds as the new frontier of investments

Two leading professional bodies came together recently to take a closer look at Sri Lanka's booming capital market.

At an evening seminar organized recently by the Institute of Chartered Accountants of Sri Lanka together with the Chartered Institute for Securities and Investment (CISI) the topic of mutual funds, identified as the new frontier of investments for Sri Lanka, was given much needed attention by a pool of well-versed experts.

They shared their insights with a houseful audience from the accounting, banking and financial sectors.

The seminar saw some insightful presentations by four resource persons including Tyronne Hannan, Director and Head of the Global Transaction Banking Division of Deutsche Bank, Colombo, Prabodha Samarasekera, Chief Executive Officer of NDB Wealth Management Ltd, Renuka Wijayawardhane, Chief Operating Officer of the Colombo Stock Exchange and P. Asokan, President of the Unit Trust Association of Sri Lanka.

The session was moderated by Brian Selvanayagam, Country Manager, Sri Lanka of the Chartered Institute for Securities and Investment. ■

Scholarships for outstanding students

87

Number of students who won CA Sri Lanka scholarships

The Institute of Chartered Accountants of Sri Lanka recently rewarded 87 outstanding students including the top achievers at the 2013 Advanced Level examinations with scholarships to embark on a globally sought after career in chartered accounting.

CA Sri Lanka scholarships were awarded to a total of 18 top Advanced Level students including the top ten students from the commerce stream, arts stream and district first students, in the presence of Professor Kshanika Hirimburegama, Chairperson of the University Grants Commission, Arjuna Herath, President of CA Sri Lanka, Lasantha Wickremasinghe, Vice President of CA Sri Lanka, Asoka Jayasinghe, Member of the CA Foundation and Aruna Alwis, Chief Executive Officer of CA Sri Lanka.

A total of 36 scholarships were also awarded under the L. A. Weerasinghe scholarship scheme which waives off all compulsory fees and allows students to complete the institute's Certificate Level I and II.

CA Sri Lanka also awarded 30 scholarships to students enabling them to complete the Strategic Level and II, waiving off all compulsory course fees, while granting a monthly allowance of Rs. 3000/- to those undergoing strategic level training.

Speaking at the scholarship award ceremony, Prof. Hirimburegama emphasized the important role played by institutes outside the university system, thereby giving students who do not gain entry into universities equal opportunities to follow recognized programmes of study.

"It is also important to monitor the training and development of institutions outside the traditional university system, so it will increase our capacity to cater to a larger student population and meet the country's skilled workforce needs," she said.

She noted that with institutes such as CA Sri Lanka also being granted degree awarding status, Sri Lanka could save a substantial amount of foreign exchange as students can now complete higher education in Sri Lanka without going overseas.

The CA Foundation of CA Sri Lanka was established in 2010 with the aim of helping thousands of students from across the country to help realize their future ambition of becoming globally sought after chartered accountants. The foundation is tasked with awarding the scholarships every year, and comprises of a committee of chartered accountants who follow a grueling process including interviewing the applicants to choose exceptionally talented students who are awarded scholarships annually based on their needs and financial hardships.

Update

Global accounting body CFO visits CA Sri Lanka

The Chief Financial Officer of the International Federation of Accountants (IFAC), Russell Guthrie, who is also the Executive Director of IFAC's Professional Relations, recently paid a courtesy call at the Institute of Chartered Accountants of Sri Lanka.

During the meeting, Guthrie discussed matters pertaining to the development of the accountancy profession in Sri Lanka at length with CA Sri Lanka President Arjuna Herath, Vice President Lasantha Wickremasinghe and Chief Executive Officer Aruna Alwis.

In its capacity as the national accounting body, CA Sri Lanka has been working very closely with global accounting bodies aimed at developing the accounting profession across Sri Lanka.

IFAC is the global organization for the accountancy profession comprising of 179 members and associates in 130 countries and jurisdictions, and representing approximately 2.5 million accountants across the world.

CA EVENT CALENDAR

CORPORATE EVENTS

23RD - 25TH OCTOBER
35th National Conference of Chartered Accountants
Waters Edge, Battaramulla

09TH DECEMBER
50th Annual Report Awards

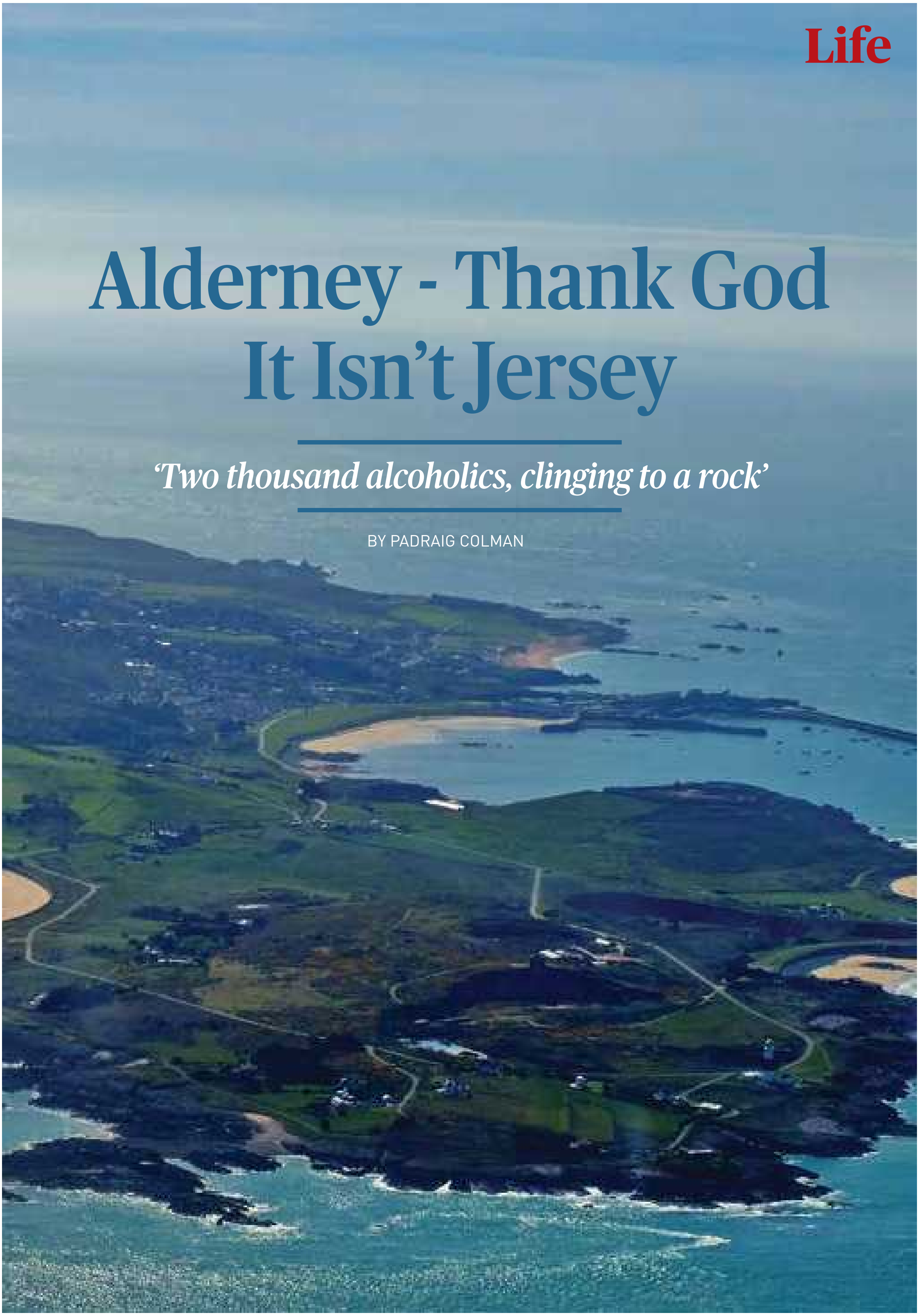
INFO: events@casrilanka.com
0112 352 000

Life

Alderney - Thank God It Isn't Jersey

'Two thousand alcoholics, clinging to a rock'

BY PADRAIG COLMAN



Alderney is a quiet, tiny island in the British Channel Islands with almost no crime, where people don't lock their cars, enjoying a gentle pace of life. It offers dramatic cliff-top walks but can also be spooky, as our travel writer Padraig Colman discovers, after surviving tales of headless horsemen and weird dreams on a deserted beach.

LONGIS BAY & ESSEX HILL ON ALDERNEY FROM THE AIR

Alderney is the most northerly and third biggest (three miles long by a mile-and-a-half wide) of the Channel Islands, 60 miles away from the British mainland and 20 miles from the bright lights of Guernsey. The Duchy of Normandy annexed Alderney in 933 AD. In 1042, William the Bastard, Duke of Normandy (later William the Conqueror, King of the English) granted Alderney to the Abbey of Mont Saint-Michel. After 1204, when mainland Normandy was incorporated into the kingdom of France, Alderney remained loyal to the English monarch as Duke of Normandy. Today, residents of Alderney are subjects of the British Crown, but are not represented at Westminster. Alderney is not part of the United Kingdom or the European Union. As of April 2013, there were 1,903 people living on Alderney.

I first took against Jersey when I was actually there but had not intended to be. I was going on a camping holiday to Alderney with a friend and our plan was to travel to Jersey from Weymouth and then get a hovercraft to Alderney.

APPROACHING THE AIRSTRIP ON ALDERNEY.

There is a common expression elsewhere in the Channel Islands that Alderney is "two thousand alcoholics, clinging to a rock". Alderney was one of the last places in the British Isles to introduce a smoking ban in pubs, shops and restaurants.

Unfortunately, there was no hovercraft until the next day and we had no money for accommodation. A Jersey restaurant ripped us off. We tried sleeping on the beach but it was too wet. We tried a shelter in the park but dogs woke us up and we found ourselves wandering the streets at about 5 am. A Gestapo-like policeman searched us and threatened to throw us in jail for vagrancy. The TV series Bergerac, which portrayed Jersey as a seething pit of crony corruption and gangsterism, confirmed my view. In more recent years, personal experience of off-shore banking has confirmed in my mind that Jersey is Rip-Off Island.

Alderney was more hospitable. There is a common expression elsewhere in the Channel Islands that Alderney is "two thousand alcoholics, clinging to a rock". Alderney was one of the last places in the British Isles to introduce a smoking ban in pubs, shops and restaurants. Alderney allows people to ride motorbikes without helmets and drive cars without seatbelts. Although peace and quiet attracts elderly people there is, occasionally, a vibrant nightlife. While Jersey hosts offshore banks, Alderney hosts over a dozen gambling website operators. One of these is Full Tilt Poker, which is currently being prosecuted by the US and Canadian governments.

Alderney has two policemen but almost no crime. People do not lock their cars. Because it is quiet and secluded, Alderney has attracted some famous residents, including TH White (The Once and Future King),

cricket commentator and poet John Arlott, cricketer Sir Ian Botham, Beatles producer Sir George Martin and actress Dame Julie Andrews.

However, there was something spooky about Alderney. We had thought we would be pitching our tents on a busy campsite. It turned out that ours were the only two tents on a farmer's rather isolated field, overlooking Saye beach. One night, something snuffling about outside my tent woke me up. I shone my torch but could not see anything. Another night, I dreamt that there was a small chapel in the field. It was covered in ivy which indicated that no one had gone in or out for a long time. Slowly the ivy began to break as the heavy door painfully creaked open from the inside. My companion told me in later years that he had had the same dream.

Local people liked to scare newcomers with tales of a headless German horseman who was said to haunt the road leading to our campsite. One night, after an evening spent in the pubs of St Anne's (the only town), circumstances dictated that I had to walk back to the campsite alone. It was a moonless night and at one point, the trees met over the top of the road, forming a dark tunnel. I saw no headless horseman. I survived.

During the Second World War, the Channel Islands were the only part of the British Commonwealth occupied by German forces. In June 1940, around 1500 residents were evacuated from Alderney. The German occupation was a test run for the occupation of Britain.

The Germans built four concentration camps in Alderney, with an estimated population of 6,000. Organisation Todt (OT) was a Third Reich civil and military engineering group named after its founder, Fritz Todt, an engineer and senior Nazi. Most OT workers were forcibly recruited, but the real slave workers were citizens of the Soviet Union, mostly from the Ukraine and Jews. OT used forced labour on Alderney to build bunkers, gun emplacements, air-raid shelters and concrete fortifications. Local people told us that the huge mound beside our campsite had been a German "hospital". In fact, the campsite is the location of the Lager Norderney camp, which in 1943 was "home" to European slave labourers. Close by is a tunnel from the camp to the beach, which, some allege, was a killing site.

Local people liked to scare newcomers with tales of a headless German horseman who was said to haunt the road leading to our campsite.

The Germans sent miscreants from other islands to Alderney. This meant that there were witnesses to the brutality. Arbitrary beatings occurred daily for the most trivial reasons such as searching for food in garbage buckets. Witnesses described sadistic games the OT guards played with the prisoners. One set Alsatians on the workers. Another took pot shots out of a window. Prisoners were dragged around until they lost consciousness.

The worst thing was the systemic violence of overwork and starvation. Breakfast was half a litre of ersatz coffee without milk or sugar; lunch half a litre of thin vegetable soup; supper, the same with a kilo of bread between six men. There was systematic corruption by which the Germans deprived the prisoners of their meagre rations. No clothing was issued.

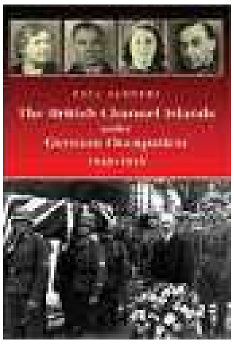
REMAINS OF NAZI GUN EMPLACEMENT ON ALDERNEY

The men worked at least twelve hours a day, with a half-hour break, seven days a week.

It is difficult to say with certainty how many perished in the Alderney camps. In his book, The British Channel Islands under German Occupation, 1940-1945, Paul Sanders believes that it is not unreasonable to assume that one third of those who entered the camps died, which mean a death toll of well in excess of 1,250.

Paul Sanders wrote: “Whatever may have been written elsewhere about the exemplary demeanour of German troops in the Channel Islands, in Alderney, an almost imperceptible, yet genuine disintegration of morale took place which found an outlet in corruption, alcohol excess, sexual debauchery and cruelty towards foreign workers.” Officers routinely kept mistresses or “comfort women” and Major Hoffmann opened his own brothel in a quiet corner of the island. On the larger islands, there were routine health checks of prostitutes but on Alderney VD was out of control.

On their return to the island, Alderney evacuees had little knowledge of the crimes committed on their island during the occupation. They were shocked to see the state of Alderney, with many houses completely derelict. The Germans had used anything wooden as fuel. When evacuee Marion Bates returned in 1945, she noted the absence of birds - Alderney without birdsong suggested that the island had lost its soul. However, the Germans had installed water pipes, electricity and tarmac roads.



THE BRITISH CHANNEL ISLANDS UNDER GERMAN OCCUPATION 1940-1945 BY PAUL SANDERS

The island usually receives about 3,000 visitors a year.

The economy has gone from depending largely on agriculture, to the tourism and finance industries. E-commerce has become increasingly important. The residents on Alderney enjoy a 20% income tax rate, and no VAT, inheritance tax or capital gains tax. It is more welcoming than Jersey and Guernsey. Jersey likes no one who is not super-rich and in Guernsey, there are restrictions on incomers buying property. Unlike other Channel Islands, Alderney enjoys an open housing market. There is a growing stock of commercial property on the island and the States of Alderney are enthusiastic supporters of economic growth. Alderney enjoys a gentle pace of life but still offers a very welcoming environment to dynamic businesses, thanks to high-speed broadband.

The island usually receives about 3,000 visitors a year. There is virtually no entertainment apart from pubs. There is an old-style cinema, which has two weekly showings of films way behind the UK release dates. There are decent places to eat - a choice of Thai, Italian, Indian, pub-grub. Informal dance music events often take place in abandoned bunkers. Families from the mainland come for the white sandy beaches and the dramatic cliff-top walks. ‘Twitchers’ come for the 260 species of birds.

The birds, the soul of Alderney, came back.