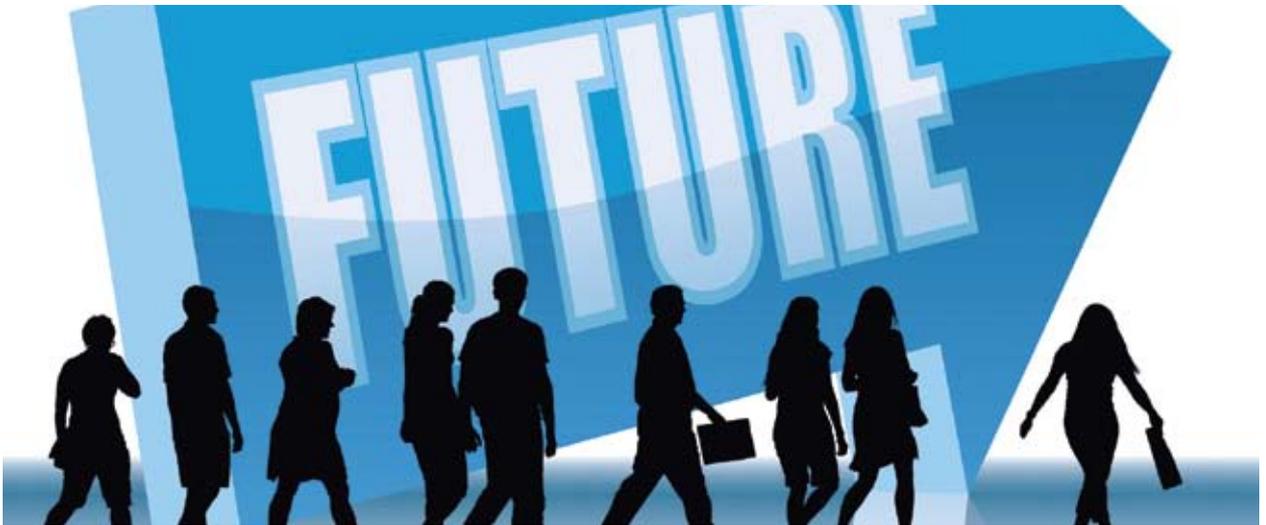


# Future of Accountancy Profession in Sri Lanka and Scope for Indian Chartered Accountants



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The history of accounting is as old as civilisation, and accounting is undoubtedly among the most important professions in economic and cultural development. As civilisation began around villages and developed into empires, accountants invented record keeping systems and kept running inventories of trade and distribution payments. The current world of business and accounting is based on the computer and the information revolution which has been progressing for nearly fifty years and is continuing into the 21<sup>st</sup> century.

The modern accountant does not merely have to cope with organisational change but is required to possess skills that are traditionally not known to the accounting profession. Accountants in the management team today do not have to only cope with technological

transformation and accounting practices, but also keep abreast of the latest theories and developments in global accounting and managerial practices.

With the economy, in the midst of a turnaround, accountants are under tremendous pressure to make sure that operating costs are leveraged and cash flows are maximised. Additionally, they are expected to have their finger on the pulse of the information in order to predict operating performance with precision. These challenges are further compounded by the expanded regulatory compliance responsibilities and financial reporting requirements. Under performance pressures from shareholders and boards, CEOs are, in turn, raising the bar for accountants. They are tasking them with helping to meet today's challenging - yet, to some extent, conflicting - expectations for aggressive growth, while at the same time managing risks and costs. Therefore, the role of an accountant is becoming more and more challenging, since the job description keeps changing.

The future direction of our profession should be recognised and interpreted against the economic, social, technological and diversified development all over the world. Our members should view these developments with utmost seriousness and specially focus on our role as professional accountants. It is no longer personnel management but human resources management; not simply knowledge of Microsoft Word and Excel, but being familiar with computerised financial packages and fully integrated e-solutions; negotiations are not simply with parties within the country but across borders.

The accounting profession has never been called upon to deal with so many challenges as it is confronting today. A seemingly endless flow of high profile accountancy scandals has found its way into newspaper headlines over the past decade eroding the public confidence in the profession. The challenge that is facing the profession is clear and the future depends on how well it can face and overcome the challenges in respect of governance and ethics that confront it.

In considering the future, an important consideration is whether the present financial reporting model could continue to sustain in the future. In recent years, significant efforts have been made to improve financial reporting. Sri Lanka has decided to converge with International Financial Reporting Standards and the new framework of Accounting Standards is effective from 1<sup>st</sup> January 2012. The Institute of Chartered Accountants of Sri Lanka will keep a track on continuous developments of financial reporting worldwide and

apply necessary adjustments to the local system in order to keep pace with the international challenges.

Has the financial reporting value chain become stronger? Has it become more or less relevant? What further steps are necessary in the future to make financial reporting more effective? The beneficial effects of financial reporting process over the last few years include, improvements to regulations governing financial reporting, increased oversight, management taking ownership of the financial reporting process and improved internal control over financial reporting systems supported by improved technology for preparing such reports.

However, there are areas of concern that should be addressed in the future. One such area is the need to comply with more than one set of financial reporting standards. Another is that although business transactions have become more complicated overtime, the use of fair value within IFRS has gathered momentum. However, the resultant complexity and confusion within the financial reports, is an issue to be continuously monitored in the future. Further, the current debate regarding how financial reporting standards should be written and whether they should be principles based or rules based will continue to stalk the profession.

Accountancy profession has no option but to accelerate the process of harmonisation in the future. If the gaps continue, investors both individual and corporate would not be able to compare the financial results of different companies internationally as well as nationally in making investment decisions. The cross border investments will increase in the future and only a few analysts will be able to follow shares in international markets if the gaps continue. The Government of the country would save time and money if international standards are adopted and if these were used internally. Further the government of the country could attempt to control the activities of

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Sri Lanka has commenced the deliberations on establishing limited liability partnerships. The United States and the United Kingdom are already ahead in permitting professional accounting practices to operate under the conditions of limited liability by forming limited liability partnerships. The risk of liability can be managed by permitting and introducing liability caps, where a claim is limited to a number of times of the fee. The progressive discussions on establishing limited liability partnerships will also influence the accounting profession in time to come.

The uncertainty as to the auditor’s liability to third parties with whom he has no expressed contract will continue into the future. Unfortunately in spite of volumes of case law, reflecting centuries of judicial wrangling, intelligible criteria have not been laid down in this regard. Should the auditor continue to address the audit report only to shareholders, ignoring other stakeholders? After all, if these interest groups are ignored, could the auditor succeed in furthering ‘public interest’ — the overriding objective of the accountancy profession?

Environmental matters affecting businesses are wide ranging and in the future more and more areas will be added to the list. They have now extended beyond matters concerning population and environment, to matters concerning sustainability and social responsibility. These changes would influence financial reporting also by requiring the accountant to have a clue on fines, penalties, environmental and social related costs, etc. The going concern status of the companies that are in breach of licenses or regulations imposed by the government will also affect financial reporting. These matters will be of increasing significance to auditors to present his opinion on true and fair status of the financial reports. Companies and their auditors can no longer afford to ignore the environmental matters because the implications of doing so are very serious.

The future audits will have multidisciplinary teams, with specialist skills in risk and business

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processes. Some engagement teams even at present include industry specialists representing engineering, banking, information technology, economics and others. Therefore, the nature of the audit planning, documentation and execution will have to be modified based on the timely requirements. Further, the accountancy profession will have to cope with the fast growing new financial products such as Islamic finance.

The recent financial crises that encompassed the world brought to surface brutally the importance of ethics in the make-up of a professional and governance in the make-up of a business entity. The future of accountancy profession will, in my view, depend on a few but fundamental core values which the profession must seek to hold sacred and timeless, during the best and worst times. To capsule, this would be to ensure that public trust and public confidence is maintained consistently and at uncompromising levels, whether an accountant serves in the profession or industry and regardless of whatever designation he/she might carry. Transparency, independence, ethical behaviour and integrity, etc., are modern day terms frequently used and abused, nonetheless they carry a deep and relevant meaning in our profession and are timeless values that like no other, will determine the future of the profession and its members. Therefore, the focus on ethics and corporate governance will immensely increase in the future which will automatically influence the financial reporting and auditing.

Stakeholder dialogue is an excellent process used by many organisations around the world to understand

the expectations of key stakeholders, and to prioritise and develop plans that meet those expectations. One of our challenges will be to identify our key stakeholders and engage them in effective dialogue, and more importantly delivering on their expectations. The Institute has stepped in to lead this through its strategic plan and has allocated sufficient resources to ensure the successful achievement of its objectives.

There is a growing need to improve the financial reporting architecture of the provincial councils, municipals and other local government entities. Financial management of these institutions is not in the hands of the professional accountants. The government should take swift action to employ professional accountants to introduce and monitor financial controls of these entities.

The future strategy relating to our profession has to be calibrated with the global profession. However, in these strategies, it is imperative that our local and regional realities and nuances are adequately addressed. The way forward would be for the regional grouping, for example, CAPA, SAFA and ASIAN to participate in the due review process of standards jointly. Such joint ventures are likely to evoke better responses as against isolated representation made by the member bodies. The Indian accountants also can play a significant role in engaging in regional collaborations to develop standards and best practices which are sufficient and appropriate to our own region.

I suppose that we have a responsibility to identify and establish standards, pronouncements and best practices which are relevant to each local context and more specifically to regional context. Therefore, we should effectively engage in sharing our views and thoughts on different accounting and auditing standards and pronouncements issued by international authorities and bring the regional specific matters to the attention of international authorities. Further, the challenges which have been addressed in this article are not unique and specific to Sri Lankan context, whereas

Indian chartered accountants also may have to have different weights on different challenges. Therefore, Indian chartered accountants also should consider the extent and impact of these challenges and make necessary arrangements to face them in the future.

India and Sri Lanka have been associating closely in different ways over the past few decades. We have been sharing the resources and information in carrying out necessary technical and research activities and dissemination of knowledge among the chartered accountants of the two countries. I hope that we can continue and enhance the existing relationship by sharing the expertise and knowledge. We can organise seminars, workshops, awareness programmes, training programmes collaboratively in India and Sri Lanka with the objective of developing the human capital base of the two countries.

Representing the accounting profession of Sri Lanka, the Institute of Chartered Accountants of Sri Lanka has been able to identify and evaluate the challenges that it will face in the future. Those challenges have been well addressed in CA Sri Lanka's strategic plan in order to find solutions to critical matters that may confront in the time to come. The plan focuses on the importance of recruiting the high caliber employees who can drive the future challenges of the institute, upgrading the examination syllabi regularly to be on par with international benchmarks, disseminating latest knowledge on technical developments around the world, keeping the members abreast of the technological advancements and motivating the membership to prioritise continuous professional development. The future direction on these lines will take the profession to a higher plateau, which will enable us to cater to public interest requirements more effectively.

In conclusion, it can be said that the accountancy profession is destined to have tremendous opportunities in the future by the very fact that it has a critical role to play if we are to alleviate poverty and achieve sustainable economic development. These opportunities will clearly be amidst unpredictable changes and various challenges. The profession will survive not only by staying relevant and market oriented, but also by not losing sight of its core purpose as custodians of transparency, integrity and ethics in financial reporting as well as in other roles. If the right choices are made, the profession will be recognised both nationally and globally, for its influential role in creating wealth and prosperity, and contributing towards fair financial reporting and thereby earning justifiable public confidence. ■

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