

CERTIFIED MANAGEMENT ACCOUNTANT

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**Corruption, Accountability
and Transparency-
The Role of the
Professional
Accountant”**



**Sarath
Jayamanna**
President's Counsel

**Fighting National Corruption through
Transparency, Accountability
and Good Governance**



**Asela
Naranpanawa**

**Sustainability Accounting with Social
Governance and ESG:
Navigating the Complexities of Modern
Corporate Responsibility**

**CORRUPTION,
ACCOUNTABILITY,
TRANSPARENCY,
AND GOOD GOVERNANCE**



Interview with :

Asmâa Resmouki

President of the International
Federation of Accountants (IFAC)

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A word from the **President**

Greetings!

I am delighted to pen a few words about the Certified Management Accountants Journal - 2023, which has been released to commemorate the visit of the International Federation of Accountants President Ms Asmâa Resmouki who took over the presidency in November 2022 to Sri Lanka.

As a leading professional accounting organisation in Sri Lanka, incorporated by an Act of Parliament we take pride in our 24-year history as one of the major accounting professional bodies in the country that have achieved membership in the International Federation of Accountants the global body for the accounting profession.

As the National Professional Management Accounting Body in Sri Lanka, we are delighted to extend an invitation to Ms. Asmâa Resmouki, the President of the IFAC and wish to thank her for the interview for the special issue of the journal focused on Corruption, Accountability, Transparency, and Good Governance, with a particular emphasis on the Role of Professional Accountants.

As we are aware, the practice of Accountability, Transparency, and Good Governance can significantly reduce corruption and create good citizens in the society. Therefore, it is imperative that we prioritise and implement these principles as a critical step towards accountability and good governance. I firmly believe that the Accounting Professionals led by IFAC can play a pivotal role in this endeavour.

In my capacity as the President of CMA, I hold strong confidence that the insightful articles featured in this CMA Journal, related to the theme, will offer invaluable guidance to Management Accountants who are spearheading Sri Lanka towards a brighter economic



future. I extend my sincere gratitude to the President of IFAC and to all the authors for their meaningful contributions to the CMA journal.

I express my gratitude to the Chairman and Members of the Journal Committee, as well as the Secretary, for their tremendous efforts in producing this special edition to mark the visit of IFAC President to Sri Lanka. I extend my best wishes for the success of the Special Edition 2023 CMA Journal and have every confidence that it will contribute to paving the way for a more prosperous Sri Lanka rid of corruption.

I look forward to working with you to take CMA-Sri Lanka to greater heights!

With warm regards!

Prof. Lakshman R Watawala

FCMA, FCA, FCMA (UK), CGMA, FCPM

President CMA

Message from the Chairman

My Dear Members,

It brings us immense joy to announce the launch of the Certified Management Accountants Journal - 2023 in honor of the visit of Ms. Asmâa Resmouki, President of the International Federation of Accountants (IFAC), to Sri Lanka. The chosen theme is one that has captured the global interest.

As the National Management Accounting body in the forefront in developing the Management Accounting Profession in Sri Lanka for the last 23 years, the Certified Management Accountants Journal has always been able to provide valuable articles to the Management Accountants and has given guidance to perform as real leaders of this country within the profession.

In the context of the theme, which revolves around Corruption, Accountability, Transparency, and Good Governance, the diverse topics presented by a range of accomplished authors offer substantial insights. This is especially relevant as Sri Lanka, having found itself on the international Gray List, is committed to addressing this issue in the coming years. As Management Accountants, I believe you will play a pivotal role in this endeavour, and I trust that the articles featured in this journal will provide valuable guidance to assist you in this mission.

I would like to extend my heartfelt gratitude to Ms. Asmâa Resmouki, President of IFAC, for sharing invaluable insights on fostering discipline in crafting rules and ensuring the viability of anti-corruption measures. Her contribution is a source of enlightenment for future leaders and all citizens of our nation, emphasising the importance of maintaining accountability, transparency, and good governance. I would also like to express my sincere appreciation to all the authors who generously devoted their time and expertise to contribute articles to the Journal for the



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purpose of knowledge sharing.

I would like to seize this moment to express my gratitude to the dedicated staff of CMA Sri Lanka, whose unwavering commitment has made all this achievable. I also extend my heartfelt appreciation to our CMA President, Prof. Lakshman R. Watawala, whose significant contributions to the profession and unwavering support and guidance have been invaluable.

I also thank the members of the Journal Committee and all those who helped in editing, printing, and making the Journal a real success!

With warm regards!

Kosala Dissanayaka

FCA, FCMA, MSLIM, FCMP

Chairman CMA Journal Committee

Corruption, Accountability and Transparency- The Role of the Professional Accountant

Interview with :



Asmâa Resmouki

*President of the International
Federation of Accountants (IFAC)*

Greetings to CMA Sri Lanka!

It is my pleasure to contribute this article on the topic of "Corruption, Accountability, Transparency and Good Governance – The Role of the Professional Accountant" to this edition of the CMA Sri Lanka journal.

These themes are central to IFAC's vision, purpose, values, and strategic objectives, as articulated in our evergreen Strategic Plan. In brief, I would emphasize that fighting fraud, corruption, money laundering, tax evasion, and other illegal practices, as well as enhancing governance, stand out as ways our profession works for the public interest, builds public trust in institutions, and highlights our positive impact across society.

What is IFAC's Action Plan for fighting corruption and economic crime?

IFAC's Action Plan for Fighting Corruption and Economic Crime provides a framework for enhancing the accountancy profession's role in these efforts. The framework is organized into five pillars:

- Harnessing the Full Potential of Education and Professional Development
- Supporting Global Standards
- Contributing to Evidence-based Policymaking
- Strengthening Our Impact through Engagement and Partnership
- Contributing Our Expertise through Thought Leadership and Advocacy

The Action Plan also includes more than thirty specific actions, which are meant to evolve over time. While many of the actions will be conducted by IFAC, our Action Plan is for the whole profession. We hope that professional accountancy organizations (PAOs), along with IFAC's Network Partners and all individual professional accountants, support and implement this plan and continue to engage on how to maximize the profession's contributions.

The boundaries between the different pillars are not meant to be clear-cut. Our support for the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, for example, is relevant to each pillar—reflecting its central importance to accountancy as a global and trusted profession.

The pillars are founded on the need for a whole-ecosystem approach, with the global accountancy profession as a core contributor to that ecosystem. Other key actors include political leaders, government agencies, civil servants, business leaders, company management and those charged with governance, global policymakers, law enforcement, other regulated

professionals (such as lawyers), and individual citizens and taxpayers. These actors all must work together in an increasingly global—yet still primarily local—policy framework of treaties, legislation, and regulations.

The publication of our Action Plan is just the beginning. While fighting corruption and economic crime have always been central to the accountancy profession's mandate, the Action Plan gives that role greater clarity and emphasis. The many actions within span ongoing activities, new initiatives for the near term, and new initiatives further into the future. We expect these actions to evolve over time with input from our member organizations and our many global partners.

I would stress that the accountancy profession cannot solve these problems alone. This Action Plan is an open invitation to engagement and partnership with all anti-corruption stakeholders.

What can a PAO like CMA Sri Lanka do to play a part in tackling these issues?

For PAOs to engage as central allies, it is essential to understand the current situation in the jurisdiction. PAO leadership can come up to speed quickly by reviewing the United Nations Convention Against Corruption (UNCAC) Implementation Review Mechanism, the Financial Action Task Force (FATF) Mutual Evaluation Reports, and the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention Implementation Reports.

The anti-corruption ecosystem has diverse actors. As a PAO, CMA Sri Lanka has established relationships with many of them—and should aim to strengthen these relationships. Your existing advocacy strategies and plans can inform your engagement. I would also invite CMA Sri Lanka leadership and members to check out the *Global Fight, Local Actions: Anti-Corruption*





Advocacy Workbook for PAOs available on the IFAC website.

How has the Accounting Profession played a positive role in tackling corruption?

A strong accountancy profession enhances transparency and accountability in the public and private sectors and underpins economic development. We accomplish this by acting on our bedrock ethical principles, outlined in the IESBA Code, and fulfilling our core values of independence and professionalism wherever and whenever we apply our skills. The accountancy profession is ready to further address constraints to sustainable growth—including corruption and related economic crimes, but also poor public financial management and governance.

Professional accountants are a part of governance

architectures that tackle corruption. Their positive contribution is amplified where the architecture is stronger. There is a clear correlation between the prevalence of professional accountants in the workforce and more favorable scores on the main global measures of corruption. This correlation is even stronger in countries that have adopted anti-money laundering laws in line with international recommendations.

Our profession, among many stakeholders in the public interest, is part of a never-ending mission to solve an age-old problem. We thrive on partnership, whether within firms, throughout a business or public sector entity, or in relationships with clients. This extends more broadly throughout the profession and to our external stakeholders.

In the fight against corruption, silence must never be the safer option for any individual. The accountancy profession, acting in the public interest, has supported this fight for decades—and at IFAC, we will continue to do so.

How can the profession understand anti-corruption reporting?

In May 2023, IFAC and Transparency International UK, with the support of the World Economic Forum's Partnering Against Corruption Initiative, produced a review of anti-corruption corporate reporting by the largest publicly traded companies around the world. Our goals are to help both corporate reporting and anti-corruption stakeholders understand current practices in anti-corruption reporting and to stimulate conversations around how anti-corruption-related issues are transparently addressed by the information companies provide.

I invite CMA Sri Lanka members to review the *Understanding Anti-Corruption Reporting* publication on the IFAC website.

How do you achieve greater transparency and accountability in the Public Sector?

To ensure governments and public sector entities around the world make informed decisions for people, the planet, and the economy, they need strong governance and public financial management. The accountancy profession—PAOs and individuals—have an important role to play in supporting fit-for-purpose public financial management and an effective public sector. Working together, the public sector and the accountancy profession can help deliver a more sustainable, inclusive, and prosperous future.

To manage public resources effectively and efficiently, governments need to track the use of resources and verify that they are appropriately allocated against public policy objectives. None of this is possible without strong governance and public financial management.

While frameworks and standards are crucial to strengthening public financial management, having



the right people—with suitable training and the right skills and competencies—across governments and public sector entities is a fundamental need. However, in many jurisdictions, there is a shortage of professional accountants in the public sector. Our profession needs to engage with public sector leaders to communicate the skills, ethics, and public interest focus that the accountancy profession brings to the public sector. Together with our government stakeholders, we can create a better world with stronger economies and fairer societies.

What are the benefits of using Accrual Based Accounting for Government Transparency and Accountability?

Accrual-based financial information allows users of that information to evaluate performance—of an individual entity or the whole-of-government where consolidated financial statements are produced—in terms of inputs, outputs, and outcomes. Accrual-based financial information is the bedrock for decision making, transparency, and accountability.

Cash accounting can generate a lack of transparency and even potential for distortions of a government's actual financial position. This arises when income is not counted until cash is received and due to the exclusion of certain charges, such as asset depreciation.

Under accrual-based financial accounting and reporting, full disclosure of government financial transactions takes place at the time they occur. Additionally, the depreciation of assets is suitably taken into account to reflect the actual value of assets in the financial year under consideration. This results in a more accurate estimate of a government's financial position. In turn, future revenues and financial positions become more predictable.

Increased disclosure of accounting indicators and reports also allows for governments to be held accountable for decisions as they take effect. Accrual accounting also facilitates better and more effective management of finances, assets, and liabilities.

I also want to highlight IFAC's digital platform, *Pathways to Accrual*, which can help governments and other public sector entities forge their own paths towards adopting and implementing accrual-based reporting frameworks.

CMA Sri Lanka: a recognized institution locally, regionally, globally

I would like to recognize CMA Sri Lanka's leadership in establishing the annual CMA Excellence in Integrated Reporting Awards and to congratulate you and all of the recipients of these honors.

CMA Sri Lanka's participation as member of both the South Asian Federation of Accountants (SAFA) and the Confederation of Asian and Pacific Accountants (CAPA) are crucial for the profession in Sri Lanka and the greater region. And as a Member of IFAC, these connections truly represent the connectivity of our global profession.

I wish to acknowledge CMA Sri Lanka President Prof. Lakshman Watawala who has been an ever-present leader in the profession in Sri Lanka and South Asia, having served as President of the Sri Lankan Institute of Chartered Accountants, the South Asian Federation of Accountants, the Organization of Professional Accountants of Sri Lanka, and as the founder and past President of the Association of Accounting Technicians of Sri Lanka.

I thank every member of CMA Sri Lanka for the magnificent work you do and I wish all of you well.

Fighting National Corruption through Transparency, Accountability and Good Governance



Sarath Jayamanna
President's Counsel

Mr. Sarath Jayamanna, President's Counsel, has 32 years of experience in the national chambers and was the former Director General of the Commission to Investigate Allegations of Bribery of Corruption (CIABOC).

This abstract is written by Nishanthi Dissanayake of CMA from the speech on the 19th National Professional Management Accounting Conference conducted by the Institute of Certified Management Accountants (CMA) of Sri Lanka at the inauguration ceremony held on the 11th of September 2023 at Hotel Cinnamon Grand, Colombo.

Since the Sri Lankan Bribery Act and the Anti-Corruption Commission has been established many years ago, the UNODC, which has the supervisory role in studying and amending these laws of the member countries of the United Nations, after Sri Lanka became a member country in 2004, observed the drawbacks and the loopholes in the Sri Lankan Bribery Act and Anti-Corruption Commission, urged Sri Lanka to develop new Anti-Corruption Laws.

Therefore, with the extended guidance and support of Hongkong and Bhutan, where the two countries have been held in the 15th and 25th position respectively in the world ranking of least corrupted countries which were found by world research carried out by the Organisation for International Transparency, Sri Lanka has taken the steps in drafting a new anti-corruption law and been able to release it in 2019. But failing to implement it in 2019, with the changes of the then Government, they have succeeded in implementing this new law, by passing a legislation on March 15, 2023 at the Parliament, with the interest of the present Government, and since the Hon. Minister has already signed the Gazette Notification, this new anti-corruption law is ready to be in operation from the September 15, 2023.

Since Mr. Sarath Jayamanna, President's Counsel,

having more than 32 years of experience in the national chambers, had also served in the committee that established this new law, it was considered that there would be no better person to explain about the new anti-corruption law to the professional participants at the CMA National Management Accounting Conference. Therefore, this serves as an abstract of his presentation on the new law. It delves into how the law's enforcement will safeguard public interests, outline the public's responsibilities in upholding Good Governance, and underscore the importance of accountability and transparency in combating corruption. These topics align closely with the overarching theme of the CMA – 2023 Journal.

Consider the case of Singapore's former Prime Minister, Lee Kuan Yew. Singapore, lacking substantial natural resources, prioritised the integrity and honesty of its people and leaders, which propelled it to surpass Sri Lanka's achievements. Under Lee Kuan Yew's leadership and a robust system of meritocracy, he instilled integrity and honesty in the country's public officials. This commitment to ethical values became Singapore's primary asset, replacing any natural resources. Through effective Good Governance practices that minimised corruption, Singapore has now climbed to the third position in



the world rankings mentioned in the research.

The characteristics of Good Governance to minimise corruption.

- All the people of the country should be treated equally.
- It is imperative to safeguard a nation's natural resources for the benefit of its current population and future generations. Notable instances in Sri Lanka include the renowned Eppawala Case, the Galle Face Case, and the Water's Edge Case.
- Any leader of any organisation should be responsible and should perform his duties with integrity and honesty, adhering to ethical behaviours, and have to be responsible in building trust to all the directors, the management, all the shareholders, and even to all the employees, so that any investor will invest in business without any fear.
- Conflict of interest will take a major role in affecting Good Governance and thus will lead to corruption, since transparency also will be lost. Then the loss that incurs could be measurable or unmeasurable. For example, the loss to the Environment could be immeasurable and the loss to the Goodwill or the Good Name of a company, also could be immeasurable. The famous Volkswagen Case can be cited as an example.
- Similarly, the cases which protected the Conflict of Interest was the famous Pepsi Cola Case. Because of this protection, the Pepsi Cola Company ultimately has come to the top 10 companies in the world. Another example was the Sri Lankan Kandalama Hotel case. Even though there was a huge protest from the General Public for damage to natural resources, with Prof. Bava's creation, it has been able to win several world awards for protecting the environment.
- Another special characteristic of eradication of corruption is maintaining ethical values. The countries who are in the top of the world ranking

with minimum corruption from the world research, such as Scandinavian countries, have build-up proper mechanisms in building these ethical values as if they are in their DNA.

The ethical values of becoming honest, even without the existence of inspections or check points, people are to carry out the orders or becoming honest and to respect the orders with due respect.

But for the new Act not to be merely hypothetical, all the above conditions have been taken into consideration, and mechanisms have been established to implement Good Governance, accountability and then transparency.

Therefore, the new law of Anti-corruption Act mentions three regulatory bodies in carrying out these prevention mechanisms by giving statutory powers.

- The main one is Commission to Investigate, Allegations of Bribery or Corruption (CIABOC)
- The regulatory authority of the Central Bank regulates the banking and non-banking sectors.
- The Securities and Exchange Commission regulates the share market, and the Insurance Board.

Then the Right to Information Act.

Section 9 of this Act, which is being ignored by the General Public, is *"It shall be the duty of the Minister, to whom the subject pertaining to any project has been assigned, to communicate, three months prior to the commencement of such project, to the public generally, and to any particular persons who are likely to be affected by such project all information relating to the project that is available with the Minister, as on the date of such communication."*

The powers given to CIABOC:

1. By implementing a rule that an investigation officer, who is an expert in the field of the subject of the entity, whether it is a Private or Public entity, to carry out independent investigations that will be considered as a forensic audit. This report is not like the Auditor General's Report; it will be accepted in a court of law for punishment of the wrongdoer. The salary and the perks for this officer are also considered with maintaining the utmost independency and implementing transparency, by applying to the parliament and then after consulting the treasury to allocate thereafter, comparing the results of his work. This officer may be working on a contract basis for a certain period or maybe on a full-time basis.
2. In implementing ethical values, a protection also given to the entity, if the responsible person lawfully and honestly accepts the vulnerability to the corruption, provided he maintain transparency and accountability to avoid such, in the next 5 years and if he does not adhere to his promise only, he will be punished. Then the punishment will be a fine of one million rupees or 7-years rigorous imprisonment or both.
3. The other mechanism implemented is the Digital form of Asset Declaration by the Government officials and the parliamentarian with considering a one-month grace period and if it is not fulfilled to forfeit one month's salary, or six months' salary and then the prosecution.
4. This Asset Declaration forms will be automatically linked with the details of Bank accounts, the Inland Revenue Department, the Motor Traffic Department, with customs and the Lands Reform Commission. And with an edited version of asset declaration any complaint is lodged and proved to have any undeclared assets of the respective person, then the punishment will be a prosecution or a seizure of assets or both.
5. The other power that is coming under CIABOC is the whistleblower protection given to the person who makes the complaint. Normally these harassments are considered as not giving any promotions, transfers, or even sexual harassments. If any of these or many of these are proven the employers will be getting the same punishments mentioned as above.
6. The other power is to protect Money Laundering. The meaning is that if any unlawful proceedings are converted to an innocent asset, current law is, after it is proved that there had been a crime about the proceedings, only can forfeit the asset. But in the new law by tracing the asset, and if it is found to be purchased unlawfully, the asset will be seized. But still this new law does not cover the proceedings of how the Government must manage these seized assets, and therefore it is considered that it will be covered in another law that will come into existence very soon.

Lastly, he mentioned taking two Quotes from Lord Buddha and from the Bible; *"If anyone has done any wrong or crime, may be that he can escape from the people who has not seen it or even by court of law, but one day he cannot escape from his heart"*.

Not only that, but he also wanted all the professionals and every educated person to take the lead in **Fighting National Corruption** by making a noise of any unlawful or any unethical activity taking. For example, the sayings of Albert Einstein and the former South African President, Nelson Mandela, is worth mentioning; "The biggest crime that they both have experienced in their lives, not the actual crime that has happened, but the silence of the so-called educated people when a crime is been in existence."



Overcoming Bribery & Corruption in the Public Sector



Chandrasena Maliyadde
Former Secretary
Ministry of Plan Implementation

01. Definition

According to **IMF** the most popular and simplest definition is the one used by the World Bank 'abuse of public power for private benefits'. This does not mean that bribery and corruption cannot exist outside the public sector. According to **Transparency International** bribery and corruption can happen anywhere, in the open or in shadows, can involve anyone and can evolve in response to changes in rules, legislation and even technology. Not all acts of corruption are taking/making bribes only. An officer taking sick leave to enjoy a vacation, getting a distress loan to purchase some luxuries, misappropriation or misuse of public funds, inaction, failure to remain alert, misinterpretation of and shielding behind regulations, taking delayed, ill timed, injurious, unfair, unjust, harmful, wrong, immoral and unethical decisions as well as not taking decisions are all forms and acts of corruption. **The Economic Times** refers corruption as misusing public power for personal gain by anyone in authority. Bribery and Corruption is deceitful behavior that people in positions of power exhibit for personal gain. It is most commonly seen amongst government officials or managers. There are different forms of corruption, including bribery, embezzlement, extortion, networking, under-the-

table transactions, manipulation, money laundering, and more.

02. Bribery, Corruption and the Public Sector

The topic itself suggests and admits that bribery and corruption prevail in the public sector. Is the public sector corrupt? Is only the public sector corrupt? Is the entire public sector corrupt? Why the public sector is corrupt?

Public sector alone is not responsible for an offence of Corruption. The giver of a bribe is equally at fault as the taker. Public sector officials are the agent of the state who executes the mandate and functions of the state. He is the conduit between the state that delivers and the public that receives. He is paid, maintained, and trained with public funds. Public sector is large and can influence all segments and many actions of the society. The public sector makes laws and regulations. It creates institutions. It delivers certain goods and services. It provides grants, concessions, incentives, exemptions, and facilities. Max Weber, German scientist, defines bureaucracy as a highly structured, formalized, and also an impersonal organization

When the word corruption is heard one thinks of bribery, commissions and greasing someone's palm. But, corruption in the public sector covers a wide range of actions starting from making a bad decision to taking a sizable commission covering failure to deliver and play the expected role and avoidance, aiding and abating and turning a blind eye to corruption, inefficiency, indecisiveness, delays, lethargy.

03. The Cost of Corruption

The cost of corruption is several fold; deterioration and/or loss of freedom and rule of law (political cost), opportunity for participation and trust in decision making (Social cost), healthy environment and a sustainable future (Environmental cost), opportunities for growth/development (Economic cost).

An IMF Report in 2016 estimated the cost of bribery alone to be between \$1.5 to \$2 trillion per year. This represents a total economic loss of approximately 2% of global GDP..

In 2018, the IMF adopted a Framework for Enhanced Engagement on Governance. The framework aims to promote more systematic, effective, candid, and evenhanded engagement with member countries on governance matters, including corruption, that impact macroeconomic performance .

At the Press Briefing on the Extended Financial Facility (EFF) Program for Sri Lanka, **IMF representatives** stated that the EFF arrangement is built on strong policy measures and prioritizes five key pillars. **The fifth pillar was structural reforms to address corruption vulnerabilities and enhanced growth.**

UN Human Rights Office report published in September 2023 state "Sri Lanka suffers from a continuing accountability deficit - be it for war crime atrocities, more recent human rights violations, **corruption**, or abuse of power - which must be addressed for the country to move forward....."

World Bank Country Director in May 2023 stated that "The real **cost of corruption** lies in sub-standard infrastructure or medicines, often bringing both health and economic consequences. Corruption dissuades investment, and when corruption allows certain firms or interest groups to control the economy, rather than market efficiency and fairness, the result is weakened competition and sluggish growth. Corruption rots the social contract between the people and the government, and this can lead to loss of trust and instability". World Bank Country Director in May 2023 : "Discretionary approaches to decision making are rife in many important areas in Sri Lanka. For example, there are complex and discretionary trade policies; tax advantages provided to certain industries, firms or interest groups; and conflicts of interest and opaque decision making regarding the oversight of state enterprises."

Bribery and Corruption is robbing us of our future as well as our present.

04. Overcoming Bribery and Corruption

In Sri Lanka, since independence, every successive government has added one or more to the existing legal arrangements and institutional structure to combat and overcome bribery and corruption in the public sector. In addition to the establishment of several state agencies, parliamentary committees, presidential commissions, committees, legislations and amendments new legislations were passed. There is a host of agencies, opinion makers, whistle blowers, political parties, INGOs, national movements, civil social organizations and chambers talk and work to overcome corruption. Sri Lanka may be the only country which even elected a **government of Good Governance**.

Anti-Corruption Bill recently passed by the Parliament is the latest piece of legislation added with high expectation and noble motive of overcoming corruption. It is "An Act to give effect to certain provisions of the United Nations Convention against Corruption and other Internationally recognized norms, standards, and best practices; to provide for the establishment of an Independent Commission to detect and investigate allegations of Bribery, Corruption and offences....." All such arrangements basically and largely deal with bribery, corruption and related offences



happening in the public sector. Majority if not all of these interventions take the nature of post mortems aimed at penalizing a few individuals who are caught or reported. These processes are time consuming, lengthy, cumbersome less results oriented ending up as futile exercises. A recent news item appeared on the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) under the title of 'Auditor General slams CIABOC for poor prosecutions; hundreds of cases languishing for over five years' speaks for itself.

Overcoming corruption would be a distant dream if the state let happening corruption and launch only post mortem operations to catch a culprit occasionally. By the time the gates are closed the horse has already bolted out.

Identification and elimination of the causes is equally or even more important and effective than post mortem interventions in a process of overcoming bribery and corruption in the public sector. A paper prepared by Vito Tanzi economist of international renown, for IMF in 1998 on 'Corruption Around the World: Causes, Consequences, Scope and Cures' shed lights on this. Paper is 25 years old but views are valid and relevant for today.

As Tanzi says corruption is a complex phenomenon and cannot be explained by a single cause and therefore overcoming corruption cannot depend on intervention in a single area. Establishment of an Independent Commission to detect and investigate allegations of Bribery, Corruption and offences related....." alone will not help to overcome bribery and corruption.

Bribery and corruption take place due to not taking timely swift action, excessive complicated documentation, Age old acts, presence of too many layers and too many officers, absence of coordination, bureaucratic lethargy, delays, inefficiency, lengthy procedures, time-consuming approaches and the list can go on. Particular aspects of Government activities, processes, provisions, procedures create fertile grounds for corruption.

In any country especially in developing countries, state functions are carried out by rules and regulations. How simple or complicated the activity, public has to get authorization, permits, licenses, documents from several offices. Regulations are not transparent; they are complicated; they are not in the public domain. Officers can refuse, delay or not attend to certain

functions. Only the bribing will oil the machine.

Procedures in tax administration provide opportunities for corruption. Tax regulations are complicated, difficult to understand, vague and leave room for interpretation. Exemptions, incentives, limits, liabilities are not clear. Government procurements lack transparency, clarity, simplicity and effective institutional controls. Government provides some goods and services free or at subsidized prices, social security grants, concessionary credit facilities. There is discretionary power in important decisions –investment, land allocation, granting approvals, tax concessions. These are the breeding grounds for bribery and corruption in the public sector. Lack of transparency in rules, laws and processes, existence of too many regulations, frequent introduction of regulations and absence of some regulations distract the focus leaving room for corruption. Some documents are lengthy, complicated and filled with cages calling for unnecessary information dating back to generations. News reports are coming out daily on bribery and corruption in procurement process, school admission, obtaining documents such as an identity card, passport or driving licenses. In procurement Technical Evaluation Reports are not prepared in time; in some cases, they are purposely delayed leaving room for so-called 'emergency procurement' to suit identified suppliers.

The issuing of important documents in a single place has compelled people of all walks to come to Colombo. The public who travel miles and hours and undergo much inconvenience and hardship are keen to get back home as soon as possible. The easiest way out is bribery. With facilities available and over staffed public service, decentralization of these services to the districts would close avenues for bribery and corruption.

According to circulars issued on school admission, proof of residence within close proximity for admission to national schools is well known. It is so well known that parents start preparing forged documents since the day a child is conceived. The result is passing bribes in cash, kind and sexual favors, depriving admission to genuine children within the approved limits. Introduction of a more transparent



less complicated procedure i.e. taking students from an aptitude test would seal the opportunities for corruption. Simplification of documents, decentralization of essential services and minimizing duplication and overlapping can be done within a shortest possible time, perhaps with a single pen stroke.

Low wages attract less honest and incompetent people to public sector. Corruption is discovered by chance or by outsiders, media and whistle blowers and only among a fraction. Concerns for fundamental rights, civil rights and human rights make Government taking lackadaisical actions against offenders.

Many archaic centuries old Acts create opportunities for bribery and corruption. To mention a few such Acts in Sri Lanka are Fauna and Flora Protection Ordinance -1937, Excise Ordinance - 1912, Forest Ordinance -1907, UGC Act 1978, BOI Act 1978, Paddy Land Act, Land Reform Act, Tea And Rubber Estates (Control Of Fragmentation) Act and Tea, Rubber and Coconut Plantation Land Fragmentation Board. These Acts have to be revisited and revised to suit modern day development trends and needs eliminating grounds for bribery and corruption.

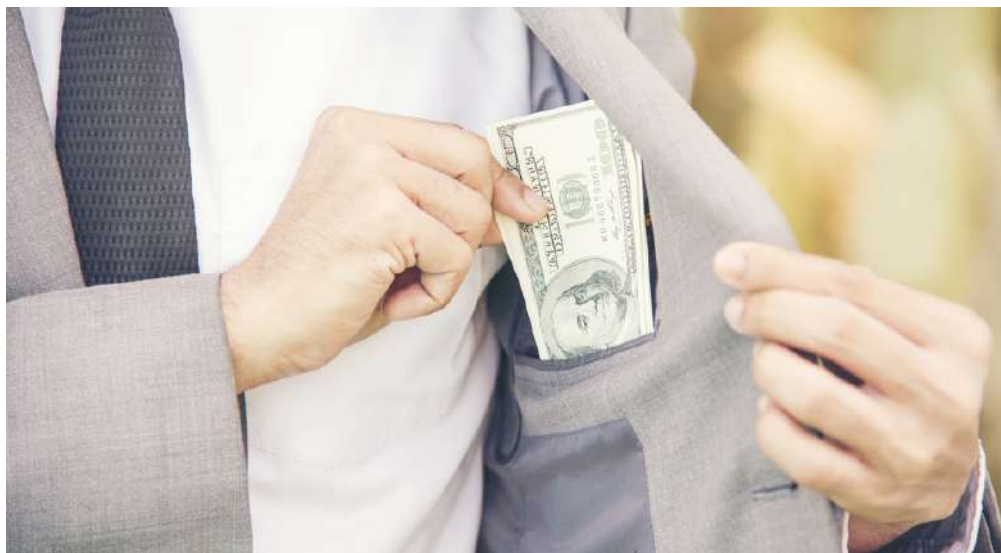
Anti-Corruption Bill is "An Act" to provide for the establishment of an Independent Commission advance the **prevention of corrupt practices**; to educate and raise awareness amongst the public to **combat Corruption**;"

Five out of 10 objects of the ACT are related to prevention of bribery and corruption. Unfortunately, only 1 clause (Clause 40 - Measures to prevent corruption and proper discharge of its functions etc.) out of 164 clauses and 1 page out of 150 pages of the Bill is allocated for prevention.

According to an extensive investigation by Washington, DC-based Global Financial Integrity importers and exporters intentionally falsify the declared value of goods on invoices filed with Sri Lanka Customs, to make an average of US\$ 4.093 billion (Rs 1.471 trillion) evaporate every year. They have, accordingly, plundered US\$ 36.833 billion (Rs 13.246 trillion) over nine years through intentional, dodgy invoicing, and stashing the foreign exchange earnings offshore.

There are instances that some corporate sector players have used Corporate Social Responsibility (CSR) to evade payment of taxes. Black money comes in the form of investment. Bribery and corruption can close the eyes of the public sector to such operations.

But the public sector turns a blind eye on these operations. Only explanation comes from bribery and corruption.



In spite of all arrangements made, institutions established, bills passed bribery and corruption goes on in the public sector. Lack of coordination, bureaucratic lethargy, ignorance, excessive and confusing documentation, rules and regulations, centralization of services and functions are only a few instances that lead to bribery and corruption. Post mortem operations are on leaving opportunities to cultivate corruption. Overcoming bribery and corruption and holding the offenders to account can only happen if we understand the way corruption works and the systems that enable it.

Ways of overcoming corruption can be found in the causes for corruption. Some actions introduced to the curb corruption have turned into digging own burial grounds. Some incentives are inducement to corruption rather than to investment.

As Vito says the fight against bribery and corruption cannot proceed independently from the reforms of the state. Bribery and Corruption will be reduced in countries where the Governments are reduced. Regulatory reform, deploying complaint-handling platforms and systems for citizens to lodge complaints , reforming public health procurement with tech-based, open contracting, and monitoring, online course to train anti-corruption officers, use of Artificial Intelligence, block chain and big data analytics in the area of anti-corruption, reflecting the support that the ethical and responsible use of technology provides to preventing, tackling and finally overcoming bribery and corruption.

I am addressed as 'Loku Putha'(Elder son) by my maternal side relatives. Once one of my uncles told me "Loku Putha, if anyone else of our family was in your position, we all would have been emancipated". That tells the whole story about the bribery and corruption in the public sector.

Sustainability Accounting with Social Governance and ESG: Navigating the Complexities of Modern Corporate Responsibility



Asela Naranpanawa

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Abstract

In an era defined by heightened awareness of unprecedented environmental and social challenges, businesses are increasingly recognising the importance of sustainability accounting. This paper explores the integral roles of social governance and ESG (Environmental, Social, and Governance) considerations within sustainability accounting, shedding light on the challenges, and benefits and implications for modern management accounting practices. Though an in-depth analysis, this paper aims to provide insights into how organisations can effectively integrate social governance and ESG factors into their accounting frameworks to promote sustainable and responsible business practices.

Introduction

Sustainability accounting is a holistic approach to assessing an organisation's impact on the environment, society, and its overall governance.

In recent years, sustainability accounting has emerged as a crucial tool for businesses seeking to align their financial objectives with broader environmental and social goals or objectives. Sustainability accounting goes beyond conventional

or traditional financial reporting by encompassing environmental, social, and governance dimensions, often referred to as ESG. Among these dimensions, social governance plays a pivotal role, focusing on ethical and social aspects of corporate behaviour in creating a more equitable and sustainable world. This paper aims to highlight the significance of social governance and ESG within the domain of sustainability accounting and their impact on modern management accounting practices.

Social Governance in Sustainability Accounting

Social governance is defined as the process of governing societies in a situation where no single actor can claim absolute dominance. As an abstract theoretical concept, it refers to all processes of social organisation and social coordination. It includes the various interaction and decision-making processes among the actors involved in solving a collective problem. Social governance is a cornerstone of sustainability accounting and involves a spectrum of factors, including human rights, labour practices, diversity and inclusion, and community engagement and ethical sourcing. It evaluates how an organisation manages its relationships with employees, stakeholders, and the

communities in which it operates. Organisations that prioritise social governance not only foster a culture of fairness and responsibility but also mitigate risks associated with labour disputes, ethical lapses, and community backlash. Measuring social impact within sustainability accounting involves quantifying and reporting on various social indicators, providing organisations with actionable insights into social performance. This includes tracking progress in areas such as employees' well-being, community investments, supplier relationships, and human rights compliance. By doing so, organisations gain insights into their social performance and can identify areas for improvement.

ESG program is to ensure accountability and the implementation of systems and processes to manage a company's impact, such as its carbon footprint and how it treats employees, suppliers, and other stakeholders. ESG initiatives also contribute to broader business sustainability efforts that aim to position companies for long-term success based on responsible corporate management and business strategies. As the number of ESG funds for managing investments rises, business and IT leaders in companies increasingly are paying attention to ESG as a functional approach to doing business.

Each aspect of ESG plays an important role in company's sustainable and ethical practices.

ESG Framework: The Triad of Sustainability Environmental, social, and governance (ESG) is

Tax and ESG

Increased interest in tax and government policies

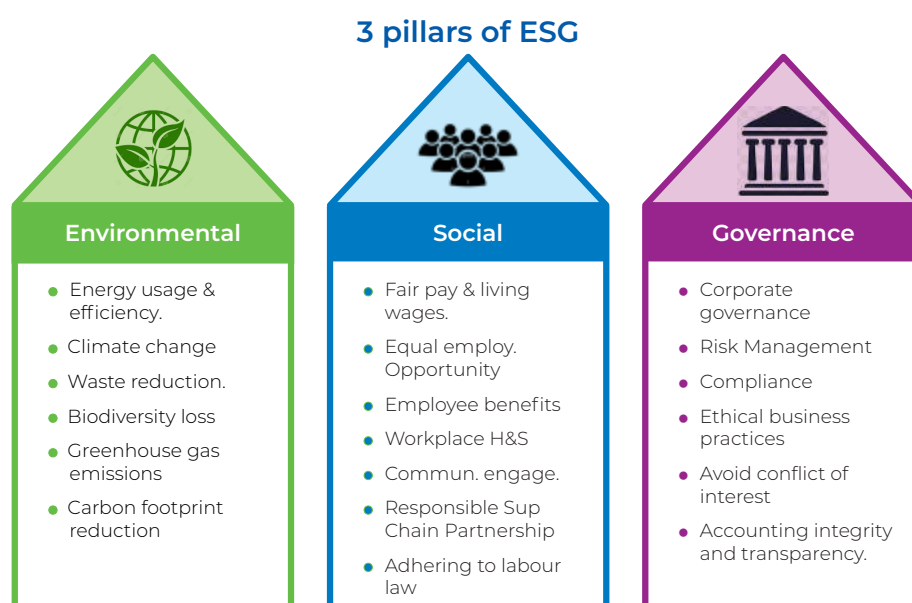


Figure 1: Three pillars of ESG (Source: www.techtarget.com)

a framework used to assess an organisation's business practices and performance on various sustainability and ethical issues. It also provides a way to measure business risks and opportunities in those areas. In capital markets, some investors use ESG criteria to evaluate companies and help determine their investment plans, a practice known as ESG investing. ESG considerations encompass Environmental, Social, and Governance factors. While social governance focuses on the ethical and societal dimension, environmental aspects encompass issues such as carbon emissions, resource consumption, and waste management, and governance related to transparency, accountability, and board effectiveness. Integrating ESG factors provides a comprehensive framework for evaluating an organisation's sustainability performance, ensuring a balanced approach to corporate responsibility.

While sustainability, ethics, and corporate governance are generally considered to be non-financial performance indicators, the role of an

and media scrutiny into whether companies are paying a fair share of tax have led to tax issues becoming an ESG consideration. Businesses are attempting to implement tax policies that demonstrate their ESG commitments as a way to build public and shareholder trust. While not reflected in the ESG acronym, tax is central to the concept's principles. Carbon taxes on greenhouse gas emissions and green tax incentives encourage sustainable practices. Tax laws require companies to contribute to the societies in which they operate, which facilitates public trust in responsible corporate actors. Proper tax governance means oversight of an organisation's tax strategies and decisions to ensure they align with business objectives and tax reporting. Taxes are critical to the orderly function of a civil society and support communities in which businesses operate.

Integrating ESG factors into sustainability accounting practices

This involves several steps.

- 1. Identification of Relevant ESG factors:**
Organisations need to identify the ESG factors that are most relevant to their industry, operations, and stakeholders. This requires understanding both industry-specific and broader societal expectations.
- 2. Data collection and Measurement:**
Organisations must collect relevant data to measure their performance in ESG factors. This often involves tracking metrics like carbon emissions, energy consumptions, employee turnover rates, and gender diversity ratios.
- 3. Incorporation into Financial Planning:** ESG factors should be integrated into financial

reports often follow internationally recognised reporting frameworks such as Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) standards.

- 2. Integrated Reports:**
Some organisations combine their financial and sustainability reporting into integrated reports. This approach provides a holistic view of the company's performance by demonstrating how ESG factors impact financial results.
- 3. ESG Ratings and Rankings:**
Rating agencies and research firms assess companies' ESG performance and assign ratings or rankings. These evaluations are used by investors to make informed decisions about

which companies align with their sustainability objectives.

4. Regulatory Disclosures:

In some jurisdictions, regulations mandate companies to disclose specific ESG information. For instance, the Task Force on Climate-related Financial Disclosures (TCFD) framework encourages companies to disclose climate-related risks and opportunities in their financial filings.

5. Investor

Communication:

As ESG considerations become more important for investors, companies engage with shareholders and potential investors to communicate their sustainability efforts during investor meetings, conferences, and webinars.

- 6. Stakeholder Engagement:**
Engaging with various stakeholders, including employees, customers, suppliers, and local communities, helps companies to understand their expectations and concerns regarding ESG issues. This engagement can inform reporting and strategy.

Measuring progress

Organisations are measuring and reporting their sustainability efforts through various mechanisms.

- 1. Sustainability Reports:**
Many companies publish standalone sustainability reports that detail their ESG initiatives, progress, and future goals. These

Tax and ESG Disclosures

In most countries and industries, public disclosure of tax strategy information is not mandatory but voluntary. However, many companies have already commenced disclosing information on their approaches to global tax that can range from broad global tax policy statement to a detailed report

on the total tax incentives for environmentally sustainable growth. ESG-focused reporting can attract tax disclosures by increasing their scope to include nonfinancial material items, such as emissions, diversity; emphasising the connection between governance and transparency; and building a narrative for the tax strategy, which helps a company to manage tax incentives or environmentally sustainable growth.

ESG Tax Strategies

As part of increased ESG visibility, companies are paying more attention to tax risk and governance, including ESG principles in their tax strategies. Their consideration includes whether the business has a process for identifying and implementing new taxes, the degree of tolerance for tax planning and risk, whether tax risks are adequately disclosed in tax returns and other relevant documents, and whether the company should consider voluntary reporting frameworks (similar to Global Reporting initiative).

Many countries have enacted tax-related measures to encourage businesses to adopt greener practices and sell environmentally friendly products and services. Those require additional compliance burdens and affect profits, pricing, cash flows, and forecasting models.

The Benefits of Integrating Social Governance and ESG

The benefits could be listed out as below.

- 1. Resilience and innovation:**
ESG integration fosters innovation and adaptability, making organisations more resilient in an ever-changing world.
- 2. Attracting investors:**
Companies or organisations that excel in social governance and ESG are more attractive to socially conscious investors driving capital inflow.
- 3. Long-term sustainability:**
By balancing economic prosperity with social and environmental responsibility, organisations secure their long-term sustainability.

Challenges and Complexity

The integration of social governance and ESG into sustainability is not without its challenges. Some of these challenges include the lack of standardised metrics and reporting frameworks, data quality issues and the need for cultural and organisational transformation. However, overcoming these challenges is crucial for businesses that aim to thrive in a rapidly changing landscape where societal and environmental concerns are central to



stakeholder expectations.

Implications to Management Accounting

Integrating social governance and ESG considerations into sustainability accounting has far-reaching implications for management accounting practices. Management accountants play a crucial role in collecting, analysing, and interpreting data related to these factors enabling informed decision-making and strategic planning.

Conclusion

Sustainability accounting, with its emphasis on social governance and ESG, represents a paradigm shift in modern corporate responsibility. Organisations that embrace these principles, not only contribute to a more sustainable and equitable world, but also position themselves for long-term success. Management accountants have a pivotal role to play in facilitating this transition by integrating social governance and ESG factors into their accounting frameworks and providing valuable insights to drive responsible decision-making. As the landscape of corporate responsibility continues to evolve, sustainability accounting with social governance and ESG considerations will remain essential in navigating the complexities of our interconnected world.

Reference

www.forbes.com
www.techraget.com

“Whistleblowers”- The Enhanced role of Auditors under the Securities Market law of Sri Lanka



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Attorney-at-Law

The enactment of the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021 (SEC Act) ushered in a new era for the auditors of Sri Lanka who are auditing Market Institutions, Market Intermediaries and listed Public Companies to act as ‘gate keepers’ and ‘whistleblowers’ to further protect shareholders and the investing public from general accounting fraud, particularly in listed companies, stock exchanges, clearing houses, central depositories, and companies providing financial services to the securities market of Sri Lanka.

Sarbanes Oxley Act of the United States of America

Internationally, the inspiration for the enactment of the provisions relating to the auditors' duty to whistle blow and the protection of whistleblowers in general, was provided initially by the Sarbanes-Oxley Act (SOX) of the United States. This Act was introduced after multiple financial scandals of the time such as Enron and WorldCom. In terms of SOX, all public companies must store electronic business

records for not less than five years. Failure to comply can result in fines, imprisonment, or both. Thus, SOX contributed to the evolution of contemporary data security and protection practices in bodies corporate. As a result, the IT Departments have been made responsible for creating and maintaining an archive of corporate records including business records and electronic communications for a prescribed period. This has ensured that financial data is accurate and protected from loss through IT protection.¹

The Dodd Frank Act

In the heels of SOX followed the Dodd-Frank Wall Street Reform and Consumer Protection Act of the United States. This Act was enacted to promote financial stability in the US by improving accountability and transparency in the financial system. The Dodd Frank Act was created as a response to the financial crisis in 2007 and passed into law in 2010. The major impact of the Dodd Frank Law on the United States Securities and Exchange Commission was that it amended Section 24 of

¹ Wikipedia

the Securities Exchange Act to permit the US SEC to share documents with the PCAOB² and other federal and state agencies, without losing protection from disclosure, to refuse to disclose privileged information obtained from foreign securities or law enforcement authorities. It also provided new whistleblower protection for employees who provide information to assist the US SEC, creating a new private right of action for re-instatement, with twice the amount in back pay and other relief.

Section 922 of the Dodd Frank Act added a new section (Section 21F) to the US Securities Exchange Act governing the treatment of whistleblowers. The Act states that a whistleblower who voluntarily provides information to the US SEC that leads to a successful enforcement action resulting in over USD 1,000,000 of monetary sanctions, may be awarded by the SEC an amount not less than 10% and not more than 30% of the monetary sanctions collected. The Act states that the determination of the amount of the award shall be within the discretion of the SEC, taking into consideration the significance of the information provided, the degree of assistance provided, and the programmatic interest of the SEC in deterring violations of the securities laws by rewarding whistleblowers and other factors the SEC may establish.

A 'whistleblower' has been defined as "any individual or two or more individuals acting jointly who provide original information relating to a violation of the securities laws to the SEC derived from the individual's or individuals' own independent knowledge or analysis, not previously known to the SEC from another source, and not exclusively derived from external publicly available information." The whistleblower reward provisions are not self-operative and required SEC rulemaking.

The above provisions have led to a significant increase in the number of whistleblower complaints made to the US SEC regarding the businesses of listed companies, brokerage firms, and investment advisors.

In the United States, the often-large size of disgorgement and heavy monetary penalties imposed by the US SEC, has no doubt provided a powerful incentive for persons to whistle blow against wrongdoing by public companies and financial service providers.

The Impact on Auditors

The Dodd Frank Act directed the PCAOB to register public company auditors, set rules for those auditors, audit or inspect those auditors, and when necessary, discipline the auditors. The Dodd Frank Act also gave the PCAOB authority over the auditors of brokers and dealers.

Mr. Steven B. Harris, a Board member of the PCAOB,

addressing a Conference on Investor and Consumer Protection in Washington DC in March 2012, speaking on the Legacy of Sarbanes-Oxley and its Implications for Dodd-Frank remarked, said:

"Ten years ago last month, the Senate Banking Committee held its first of a series of oversight hearings on 'Accounting and investor Protection Issues' raised by Enron and other public companies. Little did we know how many other public companies would victimize investors that year with careless accounting, insider dealing and questionable perks for executives. Billions in earnings and assets were restated due to accounting errors and irregularities. These failures translated into staggering lost savings for investors and lost jobs and pensions



for many American families - making it clear to Congress that auditor self-regulation had failed... We were barely six months past the September 11th terrorist attacks and the anthrax mailings that targeted our colleagues in Congress. The United States was at war with the Taliban in Afghanistan and the administration was preparing for war in Iraq. Yet, the corporate wrongdoing created such public outrage and an outcry for justice that it rose above the noise of war."

"When scandal over the application of accounting principles displaces the topic of war in the national headlines, something has definitely gone awry

2 Public Company Accounting Oversight Board



in the world of financial reporting...” At the time, investors had lost USD 67 billion in the case of Enron and US\$161 billion in the case of WorldCom.

On July 30th, 2002, the Dow had dropped almost 1,700 points, losing 18% of its value in just three weeks from a July 5th high at that time of 9,380 to 7,702 on July 23rd. In response, Congress and the Senate worked together to overhaul corporate governance, financial reporting, and accounting practices through the Sarbanes-Oxley Act. “The Act strengthens auditors’ independence from their audit clients; clarifies the reporting responsibilities of public companies and their management and audit committees; enhances the quality of financial disclosures; limits analysts’ conflicts of interest; and stiffens penalties for corporate fraud and white-collar crimes.”

“The Act also helps to remind auditors that their duty under the law is to serve, first and foremost, the interests of investors-not management. I think it is fair to say that because of the Sarbanes-Oxley Act and the work of the PCAOB, audit firms are refocusing from serving management and providing non-audit services. They are more focused on their first and foremost responsibility – to perform high quality audits for the protection of investors.”

It is a significant fact that, with the passage of time, many countries including Sri Lanka have adopted similar regulatory regimes. Whilst the laws may differ in structure and institutional framework from country to country, the intended outcome or the goal is the same; “to improve audit quality.”³

The Law in Sri Lanka

Duties of an auditor of a listed public company

In terms of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021, statutory duties were imposed on Auditors of listed companies if in the ordinary course of performing duties an auditor becomes aware of

- (a) Any contravention or non-compliance with any requirement or provision of the Act, any regulation, rule, or directive made thereunder or a breach of any rule of an exchange or any offence involving fraud or dishonesty; or
- (b) Any matter which may in his opinion adversely affect or is likely to adversely affect the financial position of the listed public company to a material extent; or
- (c) Any irregularity that has or may have a material effect upon the accounts of a listed public company, including any irregularity that affects or jeopardises or may affect or jeopardise the funds or property of any investor in securities,

The auditor shall immediately report such matter to the audit committee in writing for rectification.

If no remedial measure is taken by the audit committee within two weeks thereof, the auditor shall report such matter to the board of directors in writing for rectification or to deter the commission of a breach where it has not yet occurred.

If no action is taken by the board of directors to rectify matters within two weeks, the auditor is mandated to

- (i) submit a written report on the matter immediately thereupon to the Securities and Exchange Commission in the case of a contravention or noncompliance with any requirement or provision of the SEC Act, any regulation, rule, or directive issued thereunder or an offence involving fraud or dishonesty; or
- (ii) to the relevant exchange and to the Securities and Exchange Commission in the case of a breach of or noncompliance with any rules of an exchange (in which the company is listed).⁴

³ PCAOB website news and events

No auditor will be liable to be sued in any court for any report submitted by the auditor in good faith and in the performance of any duty imposed on the auditor under the said section.

Duties of an Auditor of a Market Intermediary

A 'Market Intermediary' includes any person licensed as a credit rating agency, corporate finance advisor, derivatives broker, derivatives dealer, investment manager, managing company, margin provider, market maker, stockbroker, stock dealer, underwriter, or any other person who undertakes similar activity and described by rules for the purpose of issuing such license by the Securities and Exchange Commission.⁵

relevant market institution and to the Securities and Exchange Commission.⁶

Duties of an Auditor of a Market Institution

A market institution has been defined as an exchange, a clearing house or a central depository licensed by the Securities and Exchange Commission under Part II of the SEC Act.

If an auditor of a market institution in the ordinary course of performing his duties comes upon any matter as described in paragraphs (a), (b), or (c) above, must immediately send to the board of directors a written report on the matter with a copy to the Securities and Exchange Commission.⁷

In all three instances referred to above, no auditor will be liable to be sued in any court for any report submitted by the auditor in good faith and in the performance of any duty imposed under the SEC Act.

The Securities and Exchange Commission, upon receiving a written report by any auditor of a listed public company, a market intermediary, or a market institution in turn may impose all or any of the following duties on an auditor of such listed company, market intermediary, or a market institution;

(d) a duty to submit such additional information and reports in relation to his audit as the Commission may

consider necessary.

- (e) a duty to enlarge, extend or alter the scope of his audit of the business and affairs of the relevant listed company, market intermediary or the market institution as the case may be;
- (f) a duty to carry out any other examination or establish any procedure in any case; or
- (g) a duty to submit a report on any matter arising out of his audit, examination or establishment of procedure, and the auditor shall carry out such duties, as an extension to his ordinary audit scope for issuing an independent opinion on the financial statements.

In the case of an Auditor of a market intermediary in the course of performing his duties, if he comes across any of the matters described in paragraphs (a), (b), or (c) above, he must immediately submit a written report to the board of directors of the market intermediary on the matter with a copy to the Securities and Exchange Commission and in the case of a contravention or noncompliance with any provision of the SEC Act, regulation, rule, or directive made thereunder or any offence involving fraud or dishonesty, to the relevant market institution and to the Securities and Exchange Commission. In the case of a breach or non-compliance of any rule of a market institution, or in any other case which adversely affects the financial position of the market intermediary to a material extent, to the

⁴ Section 90 of the SEC Act No. 19 of 2021

⁵ Section 188 of the SEC Act

⁶ Section 108 of the SEC Act

⁷ Section 74 of the SEC Act

One can see that the Law has considerably enhanced the scope of the Auditor under the circumstances mentioned above to better serve the shareholders of the companies concerned and the investing public.

Sharing of Information with any Domestic or Foreign Supervisory Authority

Section 171(2)(b) of the SEC Act permits the Securities and Exchange Commission where it deems necessary to enter into regulatory arrangements to cooperate with any domestic or foreign supervisory authority to, *inter alia*, share any information or document or electronic record with such domestic or foreign authority.

This provision will pave the way for the SEC to share any information obtained in the course of performing its obligations under the Act with any other domestic or foreign regulatory or supervisory authority which could include, *inter alia*, the Sri Lanka Accounting and Auditing Standards Monitoring Board, or even the Institute of Chartered Accountants of Sri Lanka in the event an auditor fails or falls short of its duties under the above mentioned provisions of the SEC Act in addition to the SEC's ability to directly deal with such erring Auditors. On the other hand, the President of the Institute of Chartered Accountants, who is an ex-officio member of the Commission, can take cognizance of any matter which is brought to the notice of the Commission and take upon himself to bring certain matters to the notice of the Ethics Committee of the Institute of Chartered Accountants of Sri Lanka. It is to be seen as to how the SEC will deal with such matters in the future.



Section 172 (1) of the Act prohibits an employer from discharging, terminating, demoting, or harassing any person in employment on account of him having provided information to the Securities and Exchange Commission concerning violations or potential violations of the Act, regulations, rules, or directives made thereunder or any rule of a market institution.

Any employer who retaliates against such employee may be subjected to such administrative penalty as may be determined by the Commission by rules, after affording such person an opportunity of being heard.

'A person in employment' includes a director, partner, chief executive officer, chief financial officer, company secretary, internal auditor, or any other employee.

Rewarding of Whistleblowers

Section 172(4) of the SEC Act empowers the Securities and Exchange Commission of Sri Lanka to grant a reward in terms of rules made in that regard, to a whistleblower who is the first to provide such information which leads to the successful prosecution or any other sanction by the Commission against a person for a contravention of the provisions of the Act.

As of the date of this publication, the SEC has not passed any rules regarding the granting of rewards to whistleblowers. Neither does the law address the quantum of the reward nor impose any limitations. With the making of rules by the SEC, in conjunction with the statutory duties cast upon the Auditors and the whistleblower protection introduced into

the SEC Act, it is hoped that in the future these provisions will positively influence the adherence to better corporate governance by corporates and lead to more effective deterrence and enforcement against violations of the Securities Law in Sri Lanka and overall improve the quality of audits conducted on the corporate community of the country.

Whistleblower Protection in General under the SEC Act of Sri Lanka

In terms of the Sri Lankan statute, a "whistleblower" has been defined as any individual or group of persons who provides information relating to a violation or potential violation of the provisions of the SEC Act, regulations, rules, or directives made thereunder or any rule of a market institution.

Disclaimer: The views expressed herein are those of the writer and may not necessarily reflect the views of the Securities and Exchange Commission of Sri Lanka.

The Writer was formerly the Director Legal & Enforcement of the Securities and Exchange Commission of Sri Lanka and is currently a Partner of the law firm, Varners.

Revolutionising Accounting: The Synergy of Blockchain and Artificial Intelligence in Preventing Fraud and Corruption



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Abstract

Traditional accounting systems are vulnerable to various forms of misconduct, including fraud and financial misrepresentation. Nevertheless, the advent of advanced technologies, specifically Blockchain and Artificial Intelligence (AI), offers promising solutions to combat accounting corruption. This paper comprehensively explores these technologies, delineating their core principles and applications in accounting. Additionally, it highlights real-world cases where Blockchain and AI have effectively prevented corruption. The synergy of these technologies is a focal point, explaining how their combined utilisation strengthens fraud detection and prevention mechanisms. Despite their potential, implementing AI and Blockchain in accounting for fraud prevention presents multifaceted challenges. These include integration complexities, data quality requirements, technological sophistication, legal and regulatory considerations, and cost implications. Understanding and addressing these challenges are imperative for successfully deploying AI and Blockchain in accounting, ultimately fortifying financial integrity and deterring corrupt practices.

Introduction

Corruption in accounting practices has long posed significant challenges for businesses and economies. Traditional accounting systems have been vulnerable to malfeasance, including embezzlement, fraud, and intentional misreporting of financial information (Afriyie et al., 2023). However, emerging technologies such as Blockchain and Artificial Intelligence (AI) offer promising new tools to combat accounting corruption. Preventing corruption is critical not just for legal compliance but also for safeguarding corporate reputations and fiscal health. According to The Association of Certified Fraud Examiners (2022), the annual fraud loss is estimated at 5% of revenue, with a median loss of \$117,000 and an average loss of \$1.78 million; 21% of cases involve losses of at least \$1 million. Asset misappropriation is the most common type of fraud, accounting for 86% of cases, with a median loss of \$100,000. Corruption is reported in 50% of cases, with a median loss of \$150,000, while financial statement fraud is the least common at 9% but with a median loss of \$593,000. Consequently, integrating advanced technologies, including Blockchain and AI, could provide robust mechanisms for preventing corruption. This article delves into the crucial roles of blockchain and



artificial intelligence (AI) in preventing fraud and corruption in accounting. It offers insights into these technologies, their accounting applications, real-world success stories, and integration challenges.

Blockchain

Blockchain technology is a decentralised, distributed ledger that facilitates secure, transparent transactions (Han et al., 2023). In contrast to traditional centrally controlled databases, blockchain networks operate through distributed peer nodes (Park et al., 2019). Within blockchain systems, transactions are grouped into blocks and then arranged sequentially into immutable chains using cryptographic hashing. Each block contains a hash or digital fingerprint of the previous block, creating a chained record that is extremely resistant to falsification or alteration. Blockchain technology is pivotal in preventing accounting corruption through multiple inherent attributes. First, it promotes transparency by providing an immutable ledger of all transactions, challenging record manipulation or alteration (Rana et al., 2023, Burlutska and Chabanenko, 2021). This transparency ensures that transactions are recorded accurately and remain traceable to their source, deterring fraudulent activities. Second, blockchain's decentralisation eliminates central authorities and intermediaries, reducing corruption risks (Burlutska and Chabanenko, 2021, Ozili, 2022, Mazloum et al., 2022). With no single controlling entity, opportunities for third-party-based corruption are diminished. Additionally, blockchain employs advanced cryptographic algorithms to secure network data (Burlutska and Chabanenko, 2021,

Prux et al., 2021), virtually eliminating unauthorised data access and ensuring financial record integrity and authenticity. Another hallmark, smart contracts, automate processes based on predefined conditions, minimising the need for intermediaries and fraud opportunities (Mazloum et al., 2022). Finally, blockchain enables asset tracking to prevent misuse or theft, deterring corruption (Burlutska and Chabanenko, 2021, Prux et al., 2021). This accounting for assets ensures their intended use.

Artificial Intelligence (AI)

Artificial Intelligence (AI) involves the simulation of human cognition and intelligence in computerised systems designed to think, reason, learn, and resolve problems autonomously (Zhao et al., 2022). Core AI technologies include machine learning, natural language processing, and computer vision. AI systems analyse substantial data corpora to discern patterns, generate predictive models, and automate complex decision-making. A subset of AI called machine learning enables algorithms to learn from data inputs and iteratively enhance performance without explicit programming (Neu et al., 2022). Certain capabilities of AI hold particular relevance for transforming accounting practices. Artificial Intelligence (AI) stands as a formidable ally in preventing corruption within the realm of accounting, offering a suite of functionalities that bolster financial integrity and deter fraudulent practices. Firstly, AI excels in fraud detection by combing vast datasets and recognising patterns indicative of fraudulent activities (Kundurur, 2023). This proactive approach enables the early identification

and prevention of corruption, thereby averting significant financial damage. Secondly, AI facilitates risk assessment by analysing data and pinpointing potential corruption risks (Aziz and Andriansyah, 2023). Organisations can utilise these insights to implement pre-emptive measures, reducing the likelihood of corrupt activities. Moreover, AI lends itself to compliance monitoring by scrutinising data for signs of non-compliance with regulations and internal policies (Bruner, 2022). This ensures that all transactions adhere to legal and organisational guidelines, as a strong deterrent against corruption. Furthermore, AI's predictive analytics capabilities are invaluable for foreseeing future events by analysing historical data and identifying trends (Thakker and Japee, 2023). This foresight empowers organisations to take proactive measures, preempting potential corruption before it takes root. Lastly, AI automation is pivotal in reducing the risk of human error and manipulation by streamlining routine accounting tasks (Thakker and Japee, 2023). This automation ensures that all transactions are meticulously, accurately, and transparently recorded, fortifying the defences against corruption.

The Synergy of Blockchain and Artificial Intelligence

The synergy between Blockchain (BC) and Artificial Intelligence (AI) forms a potent alliance in the ceaseless battle against corruption within the accounting domain. Blockchain's transparency, immutability, and AI's analytical prowess create a dynamic defense mechanism (Burlutska and Chabanenko, 2021). This synergy promotes transparency proactively as AI algorithms continuously monitor Blockchain transactions, promptly identifying irregularities and corruption-indicative patterns (Simoyama et al., 2017). This vigilance reduces the window for corrupt

activities. Furthermore, auditors can harness the capabilities of AI technologies to review general ledgers, tax compliance, audit work papers, data analytics, and fraud detection, enhancing their ability to uncover potential irregularities (Han et al., 2023). The combination of Blockchain and AI provides a secure and transparent ledger for storing transaction data while using AI for data analysis and fraud detection, even within complex networks (Ashfaq et al., 2022). This synergy empowers financial institutions to track and detect fraudulent activities.

AI's potential in fraud detection is further exemplified as it analyses historical data and identifies patterns of fraudulent activity, triggering alerts for auditors to investigate anomalies (Han et al., 2023). With its ability to record asset transfers and prevent misappropriation, blockchain can be integrated with AI to encode fraud prediction models into smart contracts, enabling dynamic adjustments, such as credit limit changes based on account holder spending behavior (Wang and Kogan, 2018). Moreover, the combination of Blockchain, AI, and cognitive tools significantly increases audit volume, facilitating the analysis of vast data sets and aiding in the prevention of fraud and collusion both internally and externally within accounting firms (Seligson and Lehner, 2022). Blockchain's inherent security features and decentralisation reduce the need for centralised platforms or intermediary institutions, allowing any authorised team member to detect suspicious transactions without relying on a central authority (Vincent et al., 2020). Therefore, the fusion of Blockchain and AI fortifies accounting against corruption and equips auditors with powerful tools to enhance their investigative capabilities. These technologies collectively contribute to a proactive defense that bolsters financial systems' integrity and prevents corrupt practices from taking root in the accounting domain (Burlutska and Chabanenko, 2021, Simoyama et al., 2017).



Real-world applications

The integration of blockchain and AI technologies in accounting and auditing provides a robust defense against fraud and corruption, as demonstrated through several salient examples. Mastercard's Decision Intelligence system employs AI to analyse historical shopping and expenditure patterns, constructing personal behaviour profiles for cardholders. This innovative approach signifies a major advancement over conventional fraud prevention techniques relying on generic transaction assessments (Bahety, 2023). The high-profile Luckin Coffee scandal highlights blockchain's critical capacity to uncover accounting fraud, tracing the fraudulent transactions and implicating culprits over \$300 million in fictitious sales (Chen, 2022). IBM's adoption of AI for fraud prevention underscores the transformative potential; by leveraging AI, IBM aims to reduce false declines by 80%, substantially improving fraud prevention efficacy (Bahety, 2023). These cases exemplify how assimilating blockchain and AI into accounting can effectively counter fraud and malfeasance. Whether refining transaction evaluations, exposing accounting anomalies, optimising AI systems, or bolstering fraud controls, such implementations underscore blockchain and AI's integral role in safeguarding financial integrity (Bahety, 2023, Chen, 2022, Joshi, 2021). Integrating these emerging technologies promises more secure, transparent, and trustworthy accounting practices resistant to exploitation.

Challenges of using blockchain and AI in accounting for fraud prevention

Integrating blockchain and AI technologies into existing accounting systems poses multifaceted challenges that demand careful navigation. Resource-intensive complexities inherently assimilate these advanced systems with current frameworks and workflows, necessitating substantial investments of time, expertise, and funding (Han et al., 2023). Ensuring seamless interoperability and functionality across systems is imperative. Furthermore, both technologies rely heavily on quality data inputs, so, inaccurate or incomplete data can undermine performance, causing false positives or negatives in fraud detection (Javaid et al., 2022). The sophistication of blockchain and AI also requires specialised knowledge and skills that may exceed capacities within some accounting firms (Faccia et

al., 2022), placing burdens on training and skills development. Additionally, legal and regulatory considerations around data privacy, security, and ownership generate complications demanding compliance savvy (Han et al., 2023). Finally, acquisition and maintenance costs may prove prohibitive, especially for smaller accounting firms with limited resources (Han et al., 2023). While the fraud prevention potential of blockchain and AI is significant, organisations must skilfully traverse myriad integration, data, talent, legal, regulatory, and financial challenges to realise intended benefits. Careful change management, staged implementation, data governance, specialised recruitment, and regulatory compliance can aid success. Ongoing evaluation is vital.

Conclusion

Integrating blockchain and artificial intelligence (AI) into accounting systems is a major advancement in combating corruption and fraud. These emerging technologies provide innovative solutions to longstanding accounting challenges. Blockchain's inherent transparency, immutability, and decentralisation enable highly secure and tamper-resistant ledgers. Meanwhile, AI facilitates accurate and efficient accounting through advanced data analysis, algorithmic fraud detection, and process automation. Real-world cases demonstrate blockchain and AI's tangible effectiveness in preventing and exposing accounting malfeasance. Ambitious AI fraud reduction targets further underscore the technologies' potential. However, organisations must also navigate myriad implementation challenges related to systems integration, data quality, technical complexity, regulations, and costs. Overcoming these hurdles through change management, staged rollouts, data governance, specialised hiring, and compliance is key to realizing benefits. In an environment where corruption imposes immense costs, blockchain and AI offer a promising path to reinforce financial integrity. Yet careful planning and execution is vital to harness their full potential while minimizing risks. Ongoing evaluation of outcomes is critical. Further technological advances may also uncover novel applications for elevating accounting practices.

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Corruption is contagious, an enemy of development and good governance



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Corruption is the major cause of misery and poverty of a nation as well as the barrier to overcome it. It must be addressed in all possible means if the wealth and development is what a country/society needed. Execution of justice against the corruption is never easy and never has been and never will be. It is important to fight against the corruption even it demands us a toll, for the benefit of our future generation, especially for our children to have a better world and freeing people from poverty.

Corruption has been identified as a common reason for the collapsing of governments and civilisations from history to-date, especially when leaders fail to uphold core societal principles and moral values. More failures were caused by internal factors that were not managed appropriately than external threats. When top leadership fail to maintain good values and norms in ruling, it is evident to lose the public confidence over the governing parties which could cause collapse of societies.

WHAT IS CORRUPTION?

Corruption is complicated and contagious as a disease for a society and destructive for the wellbeing of citizens at a point sooner or later. Even though it's not possible to have a universally accepted definition for corruption because of its complexity, it is often

defined in terms of individual actions as "*abuse entrusted power for private gain.*"

Having realised that the use of power at one's own discretion being the major cause for corruption, various scholars have been conducting numerous studies and research over a long period to discover what could be the causes behind its origination. Accordingly, it was ascertained that corruption usually originates from three different circumstances, viz., weak institutions, discretionary power, and economic rents. These three pillars create a suitable ground for people to gain rewards over the risks that they undertake by performing corrupt activities. Even though all these three facts equally contribute for the defiled circumstances in a society, the most significant fact is the involvement of a state member who is able and has a mental framework to control his/her designation in a discretionary manner and making it possible to earn economic rents with the support of the discretionary power of the position. (Corruption in private environment is not considered critically due to high importance over public sector).

Common root causes of corruption has been spoken over a long period at length at various forums nationally and internationally, still no country has been fortunate enough to eradicate corruption in total but only to curb it to some extent. This is the



nature and the complexity of corruption that we confront in our day-to-day life.

To drill down further, to understand why corruption has become an extremely severe problem for the whole world and reasons as to why it couldn't be managed satisfactorily, is a needed question to inquire. On the other hand, why the anti-corruption activities undertaken by one country/society/situation can't be exactly applied to another? The reasons are the differences among *"the culture, level of education and intelligence, availability of resources for basic human needs, and perception of the people in the society"*. To comprehend better the mentioned complication, reader could refer the story of Pablo Escobar.

This story explains clearly how the culture of a society plays a major role in making the corruption complicated to eradicate. Pablo Escobar was a reputed drug dealer in Columbia, the world's most powerful drug trafficker in the 1980s and early '90s. He once controlled the Medellin Cartel and as much as 80% of the international cocaine trade. He was famous for combatting with the Colombian government in his campaign to outlaw extradition of criminals to the United States and ordering the assassination of countless individuals, including police officers, journalists, and high-ranking officials and politicians who had helped him carrying on his drug dealing work.

He was involved in corruption activities on a massive scale internationally, but in the national context he was treated as a hero. Additionally, in the 1982 Colombian parliamentary election, Escobar was elected as an alternate member of the Chamber of Representatives as part of the Liberal Party. He was well known for investing large sums of his fortune in charitable public works, including the construction of schools, sports fields, and housing developments for the urban poor in Columbia. While U.S. and Colombian officials have identified Pablo Escobar as a villain and terrorist who made the entire nation a hostage, many people among the Colombian popular class admired him as a generous benefactor,

This explains clearly how public perception could support to develop corruption, making the anti-corruption activities difficult to carry out. Therefore, when the public is of the opinion that the corruption helps them to have benefits and facilities, it becomes categorically difficult to handle and eliminate.

Another aspect of public perception that makes it tough to execute anti-corruption activities is that when most people consider small informal payments to service providers to expedite the support they require, are gifts but not bribes. This comes along with the level of their education and intelligence. As a result, forms of corruption that are considered as usual including bribery, facilitation payments, gift giving, embezzlement, favouritism, fraud, extortion, collusion, sextortion, and impunity. Hence, one could infer that corruption mirrors the state of a country's legal, economic, cultural, and political institutions, as well as its literacy levels, intelligence, and public attitudes

WHY IS CORRUPTION HARMFUL?

There are certain parallels proposed for understanding corruption. Although they could be illuminating in certain ways, they have failed to encapsulate the gross phenomena perfectly. Bribes bring no money to government coffers, causing government to lose planned revenues for social activities and public infrastructure development for the benefit of the entire society. This is a failure in the social and economic development of especially the marginalised people who represent most of a country and must suffer in the long run as a result.

Bribes involve higher transaction costs than taxes due to the uncertainty and secrecy that they are accompanied with. Corrupt contracts are not enforceable in courts and gives no assurance to the briber to reverse the wrongful action in time to come. Hence, short-term satisfaction has no assurance that the briber will not be penalised in future by a court of law.

Bribing has another perspective of lobbying. In a situation where a country has enacted tariffs or license requirements for imports applicable for all firms in a particular sector, a firm can avoid paying the

tariff or buying a license by bribing a custom official. On the other hand, all firms in the sector could collectively lobby the government to remove the tariff or license which is much severe, vicious, and malicious for the country or the society. There are certain prominent differences between bribing and lobbying but both are harmful for the society in different ways.

Despite the type of corruption, it is harmful for the society's wellbeing. Economic and social development, independence of media and jurisdiction, quality of education, and health factors are all adversely affected, ultimately making general public lose faith in the government and followed by dethroning the leadership and making a country aimless and subject to multinational slavery.

CAUSES

As per United Nations Development Program

Corruption = (monopoly + discretion) - (accountability + integrity + transparency)

Common reasons of corruption are the unstable, autocratic political, and economic environment, lack of professional ethics, low morality, certain habits, customs, traditions, and demography. When a society is severely influenced by a high degree of corruption, it causes the lowering of trust in the rule of law, education and, consequently, the quality of life (QoL) including physical, mental, and spiritual relationships. (Indicators of QoL are

Corruption perception index – 2022



THE CPI USES A SCALE FROM 0 TO 100

2/3 OF COUNTRIES SCORE BELOW 50/100

100 is very clean and 0 is highly corrupt.

education status, work environment, social status, wealth, a sense of security and safety, freedom, autonomy in decision-making, social-belonging, and their physical surroundings).

The cost of corruption is far too expensive and not only causes cost to the government but also adversely affect almost all sections of national development. Its elevation of inequality is hindering growth, compromising the legitimacy of governments, and deteriorating the public trust in democracy. This is a cause for a national destruction affecting deterioration of school education, climate changes, and destruction of the hopes of general public and investors in achieving the Sustainable Development Goals.

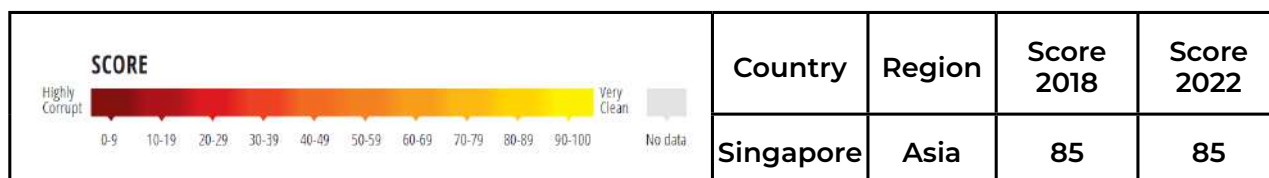
Nonetheless, the most disheartening aspect lies in the recognition and enduring of the profound impacts of corruption, yet individuals often choose to reside in corrupt societies without actively pursuing reform. This may be attributed to the systemic nature of corruption in their nations, where it has become an inherent and deeply ingrained component of the economic, social, and political systems.

There is another aspect to public living in corrupted societies without challenging the same. Especially, when the poverty level of a country is high, education doesn't support people to analyse macro-economic factors and when the land is governed by corrupted politicians, and weak jurisdiction, it's evident that the people become helpless to act against the corruption but also decide to live within.

Eradication of corruption is not a realistic goal, but measures should be taken to minimise it.

Anti-corruption actions are often described as a struggle to eradicate corruption. This is not a newly emerged problem that could be treated with the right combination of medication. Corruption is universal and has existed for thousands of years; hence there are no instant and short-term solutions to address this worldwide and age long issue. It is obvious that most of the states have experienced in the past or in present being controlled and governed by a few individuals who control all resources. On the other hand, how, why, and to what degree corruption takes place differ by its geographic area, community, and industry. In recent past, globalisation has permitted grand corruption with the help of professional intermediaries working on new types of financial investments. As a result of a cohesive set of issues working together, corruption has become difficult to eradicate





completely.

Another perspective to explain why corruption could not be abolished is the dearth of formal rules, and since the gains more are lucrative than the risks involved, the likelihood of detection and penalty is small. The likelihood of penalty becomes low due to a variety of factors, such as insufficient capacity to enforce the law or an unspoken agreement that certain activities are above the law.

To illustrate as to why corruption prevails in a society is that in some instances, corrupt practices are considered acceptable or even expected by the public. Such circumstances could occur when there is a social norm advocating a corrupt practice that is in dispute with formal rules or regulations. A social norm encompasses the perceived informal, often unspoken guidelines that delineate acceptable and fitting conduct within a particular group or community. These norms play a significant role in shaping human behavior, ultimately serving as a foundational element in perpetuating corruption.

Individual perceptions influence their behaviour patterns and determine their morals, ethics, values, and ideologies, as well as their personal circumstances. Most of these features are framed by their education, culture, and personal circumstances. When individuals and groups hold psychological models that justify or normalise corruption, such as a belief that corruption is normal and is expected and tolerated, it is certainly difficult to wipe it off from the culture or the society. To inculcate anti-corruption functionalities in a society where the people have a mental framework that endorses corruption as right, should be initiated by introducing pressures driving the corrupt behaviour out, shifted, or countered.

To support and convince people to eliminate these corruption acceptance mindsets could be handled in long term strategic planning implemented by patriotic leadership in a society with greater commitment. Education, solid and impartial legal frameworks, encouragement of whistleblowing, punishments through legislation, ensuring the gains are not higher than the risks of corrupt actions, etc. should be implemented.

While knowing the fact that corruption is complex and complicated, committed leadership could certainly drive a nation to curtail corruption to a greater extent making the society/ country a healthy place for all people. Singapore's economic and social revolution under the leadership of the former Prime Minister of Singapore, Lee Kuan Yew, is an outstanding story to study in this juncture.

Lee Kuan Yew had been the pioneer of Singapore's spectacular economic transformation from a Third World country in 1959 with a GDP per capita of US\$400 to a First World nation today with a GDP

per capita of US\$59,798 in 2020 (World Bank, 2022). His farsighted authority, efforts and unwavering decisions had contributed Singapore to be what it is today from its previous situation. Lee Kuan Yew was the first prime minister from June 1959 until November 1990. Besides Singapore's rapid economic development, it has also succeeded in curtailing corruption by ranking itself in par with Norway and Sweden with a score of 85 on Transparency International's Corruption Perceptions Index (CPI) in 2021.

The perceived levels of public sector corruption in 180 countries/territories around the world.

In Singapore, Lee Kuan Yew played a critical role in curbing corruption by learning from the mistakes of the British colonial government. His policy of zero-tolerance toward corruption was implemented with the enactment of the Prevention of Corruption Act in June 1960 to enhance the Corrupt Practices Investigation Bureau's legal powers, which was supplemented by the allocation of adequate budget and personnel to enable it to combat corruption effectively. Competitive salaries were paid to senior civil servants and ministers after 1972 to prevent them from joining the private sector and to reduce their incentive to be corrupt. Those persons found guilty of corruption offences are punished according to the law, without regard for their position, status or political affiliation, to serve as a deterrent.

Short-term functionality to solve problems bolster corruption not to be eliminated permanently

Functionality becomes a driver of corruption when that solves a problem temporarily for an individual or group. As an example, if a patient bribes a health care worker to secure required medical treatment, it solves an important problem for that person. Even though there is a purpose for the bribe, the reason for the bribery payment is the lack of staff oversight and accountability of the environment in which health care workers' getting opportunities to demand additional payments. This temporarily solution could be a benefit or short-term solution for such individual, but this could have resulted in another patient's treatment being delayed or denied. In short, one person's gain comes at the expense of another's loss.

Likewise, when high level corruption leads to conflict, corruption in the form of economic rents may minimise the risk of conflict in the short term. So, it's proven that functionality drivers have opportunity to progress when institutions and processors are weak. Even though corruption can increase efficiency in short term for a selected group of people or a specific individual, in the long run society is collectively better off if the 'need for corruption' is eradicated.

EFFECTS

Corruption deteriorates the trust people have in the public sector to act in their best interests. It wastes tax revenues that could be used for important community projects and social welfare. As a result, corruption causes in poor quality services and infrastructure, or projects never being completed.

To elaborate further, road development in Sri Lanka is a typical example. For reasons unexplained so far, most of the roads are either not in proper condition to travel or repairs are underway for months and years. For decades, the ruling parties have consistently overlooked the hardships endured by the population due to travel difficulties, traffic congestion, which consumes precious and productive time that could otherwise contribute to national development, and the wastage of imported fuel, which, if conserved, could be harnessed for economic growth. Even though this has been a national issue spoken by people and media, still no permanent remedy has taken place for the benefit of the society. As a result Sri Lankan public has lost their trust and faith in the ruling parties over a period. This being one of several burning issues in the country, has resulted in the brain drain of Sri Lankan professionals, which could ultimately result in the country's decline and bankruptcy.

Impacts of corruption

Taxpayer funds are wasted or not used for the purpose.

Loss of goods and services for the people and improper distribution of resources and wealth, creating a social imbalance.

Lower community confidence in public authorities.

Discouraging businesses and thereby lowering economic stability.

Economic and social environments are negatively impacted.

Resources are diverted away from core business and services.

What is the Magnitude of Corruption?

The literature on quantification and identification of corruption is still very low. There are a variety of ways in measuring corruption, but no method is error-free, hence, "Mix of methods" could be advantageous to minimise the error rate. The common methods of measuring corruption are,

Official statistics

Perceptual and attitudinal surveys

Experiential surveys

Tracking surveys

Corruption diminishes economic growth. Inefficient firms and the disproportionate allocation of resources such as talent, technology, and the non-allocation of capital

for socially most productive uses are the outcome of corruption. When businesses are not allocated with appropriate resources, business owners may choose not to start firms or to expand rapidly resulting in an economic downturn. As the businesses expect that they are forced to bargain over bribes in the future, they will adopt inefficient "fly-by-night" technologies of mechanisms that allow them to react more flexibly to future demands from corrupt officials and their possible threats to shut down operations. All these reasons give the negative outcome of economic and social collapse of a society.

HOW TO AVOID

The studies on corruption and development gives us a number of insights on how to identify, plan, and implement anti-corruption processes. Even though they could be based on an assessment and require further continuous development, it's important to initiate them to manage corruption for the best interest of societies.

Identification

It is essential to understand and analyse the corruption case before the treatment. The identification should be both broad and deep, as well as context-specific and feasibility-sensitive. It's important to determine the types of corruption, their effects and level of damage, culprits, what the functional drivers are, and how these factors interact with each other. This inquiry is critical to determine corrupt behaviour, the types and intensity of social pressures, perceptions and how of citizens have experience and understood the corruption, particularly marginalised groups, legal and institutional frameworks and practices (formal/ informal) that facilitate or discourage corruption and the short-term functionalities of corruption.



Discovery methods of corruption

Audits

Auditing is an important method to identify corruption in both public and private sector organisations. Having specific meaning for audit, it could be explained in this context as “a methodical examination and review”. There are Internal Audits that are conducted by the organization itself, or external audits conducted by an outside independent entity. Both internal and external audits play a major role in detecting corruption; hence, they should be given independence to perform their oversight functions effectively.

However, It should be noted that well-written policies and audit systems themselves can't eradicate corruption when it is not discouraged by the national/ institutional culture.

A typical example to justify the above statement is the Siemens scandal. Although it is not in the public sector, it is still helpful to understand how only the written policies and auditing fail in corruption determination.

Siemens was renowned for its technological products and reliable services in telecommunications, power, transportation, and medical equipment prior to the corruption scandal. The world was surprised to hear the news when the police raided Siemens' headquarters on November 15, 2006. The company portrayed itself as doing business according to the highest ethical and legal standards and was selected to become a corporate member of Transparency International's German chapter in 1998 – a non-governmental organisation created to fight corruption. However, the reality was completely contradictory.

Since at least the 1990s, Siemens had organised a global system of corruption to gain market share to increase its price. The functional enabler was considerable ambiguities in the legal systems of a host of countries, including Germany. For a long period, bribes became an accepted business norm at Siemens. They were managed through hidden bank accounts, unknown intermediaries, and consultants. Their anti-corruption existed only on paper.

At this time, legal framework in Germany was written in such a way that it allowed bribes to be accounted for as tax-deductible expenses. It was in 1999 when the country finally brought its law into line with the 1997 OECD Convention on Combating Bribery. This made it illegal to bribe foreign officials for a German company. Afterwards, discussions started at the highest level at Siemens on how to handle the new regulation.

On July 5, 2000, Siemens issued a new corporate circular requiring operating groups and regional companies to ensure that a new anti-corruption

clause would be included in all contracts with agents, consultants, brokers, or other third parties. The following year it issued new guidelines that stipulated no employee may directly or indirectly offer or grant unjustified advantages to others in connection with business dealings, neither in monetary form nor as some other advantage.

And on taking up a listing on the New York Stock Exchange in 2001, the company became subject to the 1977 Foreign Corruption Practice Act. In addition, from November 2003 the company was obliged to comply with the Sarbanes-Oxley Act, with a code of ethics that required chief financial officers and business heads to act responsibly and with integrity.

In July 2004, Siemens' chief financial officer delivered a speech entitled “*Tone from the Top*”. The aim was to show that fighting corruption was finally a priority. As a German prosecutor was to comment later, the Siemens compliance program existed only on paper. Siemens management failed to appropriately investigate most issues, including bribery payments to government officials and civil servants all over the world such as Bangladesh, Vietnam, Russia, and Mexico to Greece, Norway Iraq and Nigeria.

After the disclosure of the corruption and change of the relevant laws pertaining to bribes in Germany, a number of countries, including the US, Germany, and Italy took action against Siemens and it had to pay more than \$1.6 billion in fines, penalties and disgorgement of profits, including \$800 million to US authorities. This was the largest monetary sanction ever imposed in a case under America's Foreign Corruption Practice Act since it was passed in 1977.

The lessons we can learn from this case is that there should be proper setting up of a real compliance programme and handling mechanisms. Without proper counteractions, the risk of corruption is that the spread of it will continue as a virus, with



companies imitating one another.

Self-reporting

Self-reporting is another mechanism that helps the prevention of corruption. There should be laws, regulations and incentives that encourage individuals to report on corruption in which they played a role. This process is known as self-reporting. The book *"Confessions of an Economic Hit Man"* by John Perkins is an example.

Citizen reporting

General public is the first to observe and experience corruption in public service. Therefore, to expose corruption, members of the public should be encouraged and facilitated with standard reporting mechanisms for crime-reporting at the national or municipal level such as the police. It is significant to set up a framework to protect and encourage these members as they do a social service for the entire community in combating corruption.

Media reporting

Journalism and the media play a major role in reporting, exposing, and curbing corruption. Reporting on corruption is a significant contribution to the betterment of society. Media reports could also be used to gather more information and evaluate incidents where corruption has occurred. One example for media reporting is Panama Papers which astonished the whole world about how renowned people have involved in corruption and their level of magnitude.

Media and journalism should be free and independent in reporting to have their maximum advantage to reveal corruption. Setting up of

legislative frameworks to protect journalists and their sources from victimisation is critical if this support is genuinely required for the benefit of the society.

Whistleblowing

Whistleblowing is an action carried out by an internal employee informing about an unlawful or corrupted activity to an authority. Usually, the whistleblower alerts the appropriate management hierarchy level, such as manager, executive, or board member. To support whistleblowing, there should be established practices for reporting and protection mechanisms of such people. If the whistleblower understands that the set-up protocol is inefficient and unreliable for him to inform, he/she can raise the issue with external regulatory or law enforcement agencies or by contacting the media. The scope of whistleblowing is broader and not limited only to corruption reporting. It includes reporting on a variety of misconduct, illegal acts, harassment, wrongdoing, and risks to persons' lives, health, and environment.

Asset and interest disclosure by public officials has been widely used to build integrity and combat corruption.

Planning and implementation

Once the identification of the corruption is done, responsible parties should take adequate steps for prevention and take measures not to let them repeat with an ease. Punishment should be planned with an appropriate legal framework being established. As explained in Siemens' case study, penalties were imposed after the introduction of appropriate legal framework making the anti-corruption activities legal and transparent.

Corruption management does not have a globally accepted practice; hence, should be localised accordingly. The processes of identifying, designing, implementing, and adjusting anti-corruption interventions should be inclusive and locally grounded. To the maximum level possible, local leadership should take the baton forward with the support of powerful stakeholders who should be protected legally.

Traditional anti-corruption tools may not be relevant and supportive to combat and reduce when corruption is embedded or systemic. Systemic corruption can only be minimised effectively by seeking to challenge, counterbalance, or provide alternatives to the mentioned system. In these



instances, 'Catch individual acts of corruption' mechanism is not effective. Procedure that assists in changing incentives, attitudes, expectations, and social norms are important functions to establish when the corruption is systemic.

The scope of corruption is too vast to curb all activities at once, so it needs to be ensured to prioritise the most harmful for the public in general, especially for the marginalised group of people. In prioritisation, there are two main considerations, their impact and feasibility. IMPACT is, *"Which corrupt practices are causing the most harm particularly for the poor and marginalised households?"*

Sometimes, it may not be possible to implement the most impactful intervention but the second-best solutions. Even though they are less ambitious, they are more feasible measures depending on the availability of resources and practicality. To determine the feasibility, there are two aspects to consider; is there an enabling environment and/or window of opportunity for reform?

When there is not an enabling environment, what actions can be taken to enhance the feasibility of broader and more impactful interventions in the future?

Importantly, these anti-corruption activities should have clear objectives as to what they thrive to reach. Well-defined objectives can increase the likelihood of anti-corruption interventions having a significant impact for the problem identified.

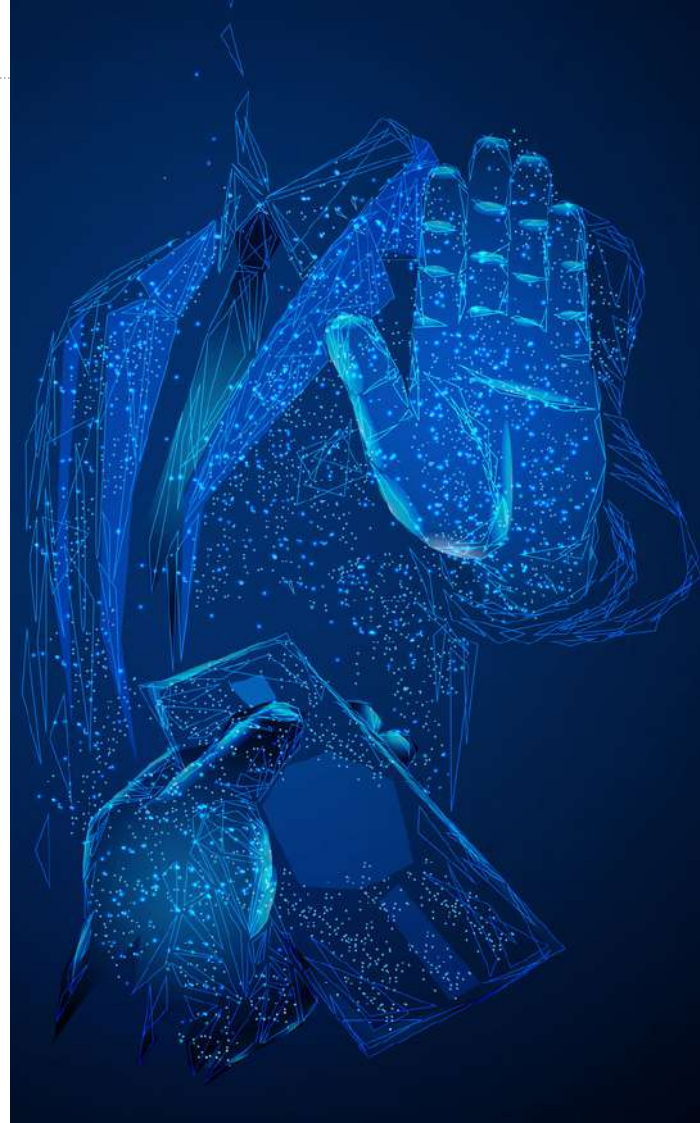
Planning and implementation of anti-corruption processes should be coupled with learning-focused monitoring, controlling and evaluation plan to ensure focused objectives are reached with appropriate flexibility and at times discretion as well.

Overall, anti-corruption activities should be aimed for better society, public confidence, impartial distribution of wealth and unrestricted access to resources by all types of groups with equal authority. Therefore it's important to ensure that anti-corruption interventions do not negatively affect the wider economic, political, and social dynamics in a country or a society.

CONCLUSION

Curbing corruption is immensely difficult and time consuming too. Least corrupted countries in the world have evolved over a long period with strenuous efforts in introducing, implementing, monitoring and controlling institutions, laws, practices, and norms over decades, if not centuries. The process they follow is not linear, nor is it ever complete. All instances compromise and opposition are inevitable but, if a society or country needs to curb corruption, walking through this journey is compulsory.

Because the corruption is complex and resilient, even incremental improvements are difficult to sustain and build upon. As a result, to combat corruption, there should be a sufficiently anchored set of procedures led by local stakeholders, including powerful individuals wherever possible, the use of strong theory of change, an understanding of



the complexity of corruption and anti-corruption activities, context-specific understanding of the drivers and enablers of corruption, as well as the wider political economy, the use of local knowledge on emerging anti-corruption literature, employing a tailored, multi-faceted, and multi-stakeholder approach, ongoing efforts and strategies, foster collaboration and coordination together with trust, contributing to a shift in an equilibrium and being politically smart and feasible while establishing realistic goals as outcomes of anti-corruption activities with realistic time horizon with the usage of windows of opportunity when they arise.

These functionalities should be diligently and attentively followed up while anticipating unintended consequences and backlashes while learning and analysing repeatedly to support continuous adjustment for the betterment.

These actions are important to establish nations and societies with least corruption where public can have long term harmony, confidence in public sector for resources allocation, healthy and prosperous environments where marginalised people also can live with satisfaction and peace.

Review of Alternative Perspective on Preventing Frauds in Sri Lanka



Randika Roshan

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Sri Lanka is experiencing a rising number of frauds with traditional methods of fraud prevention, including law enforcement and disciplinary actions etc. Contemporary strategies using cutting-edge technologies like machine learning and artificial intelligence for real-time detection were a failure too. Hence, alternative methods focused on addressing the root causes of fraud through spiritual growth and improving human qualities need to be introduced to the workplace.

Abstract

Sri Lanka is experiencing a rising number of frauds with traditional methods of fraud prevention, including law enforcement and disciplinary actions etc. Contemporary strategies using cutting-edge technologies like machine learning and artificial intelligence for real-time detection were a failure too. Hence, alternative methods focused on addressing the root causes of fraud through spiritual growth and improving human qualities need to be introduced to the workplace.

Introduction

Defining Frauds

According to a study conducted by the Association of Certified Fraud Examiners in 2020, it was determined that the average organisation experiences a yearly revenue loss of approximately 5% due to fraudulent activities (Mudith Sujeewa & Kawshalya, 2020). Many have defined fraud from a different perspective. Generally, as per English dictionaries, fraud is defined as a wrongful or criminal deception intended to result in financial or personal gain. In the field of Accounting and Auditing, International Auditing Standards 240 defines fraud as an intentional act

by one or more individuals among management, those charged with governance, employees, or third parties, involving in deception to obtain an unjust or illegal advantage. Further, fraud is a consciously fraudulent activity to gain an advantage or generate a profit (Walakumbura & Dharmarathna, 2022). Therefore, when reviewing all these definitions, the intention behind such an act that results in fraud is the most prominent factor in identifying fraud.

Status of frauds in Sri Lanka

Sri Lanka, as a country, is taking many measures to free fraud from a broader perspective. Day by day, the number of frauds happening in the country has risen and amounts to a higher amount (Walakumbura and Dharmaratne, 2022). This is further evident with the slogans many political parties raised in the last decades and the general perception of the people of the country. Due to the inherent sophistication of detecting fraud, many complications arose. Many professions have developed concepts to address them. However, very few looked at the root causes to eliminate such fraud from a very broad perspective.

Traditional methods of preventing fraud

Conventional fraud prevention techniques have

been employed to safeguard both organisations and individuals against a wide range of fraudulent schemes. This may include the enforcement of the law for the wrongdoer or disciplinary action taken against them by the organisation. Nonetheless, these methods frequently exhibit shortcomings and constraints. In contrast, contemporary fraud prevention strategies harness cutting-edge technologies, including machine learning, artificial intelligence, and data analytics to surmount many of these conventional limitations. These updated approaches offer the advantages of real-time detection, scalability, and improved precision in identifying fraudulent behaviours. Even if it could be identified with the enforcement of these techniques, still, the root cause behind the frauds has not been addressed.

Alternative methods of prevention of fraud

JT Wells in 2001 introduces causes for fraud as the fraud triangle as Opportunity, Pressure, and Rationalisation. It can be identified that this triangle is directed towards the mental process of the

human being. Therefore, when this mental process is changed, the above triangle is not operated, and such fraud could be eliminated. When a person is spiritually grown, his motive or intention that direct him to fraud might be mitigated gradually and instead spiritual qualities including love, emotional behaviours and spiritual intelligence will be improved (Suryandari et al., 2021).

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CMA National Management Accounting Conference – 2023

Theme: Sustainability and Value Creation in an Economic Turmoil



Nishanthi Dissanayake

The Institute of Certified Management Accountants of Sri Lanka (CMA), the national professional management accounting body in Sri Lanka, incorporated by an Act of Parliament No 23 of 2009, held their 19th National Management Accounting Conference for the year 2023 on the 11th and 12th of September at Hotel Cinnamon Grand, Colombo, on the theme, *"Sustainability and Value Creation in an Economic Turmoil"*.

After welcoming the guests by Prof. Lakshman R. Watawala and the Council Members of CMA, the National Anthem was sung, followed by the CMA Song which was sung in Sinhala, Tamil, and English. The 19th National Management Accounting Conference commenced with an opening address from Prof. Lakshman R. Watawala, a founding member of CMA. With extensive experience in both the Public and Private sectors, Prof. Watawala has played a pivotal role in decision-making processes aimed at enhancing various industries. As a seasoned professional in the fields of Accounting and Auditing, he extended a warm welcome to the distinguished keynote speakers and the esteemed guest of honor, the Governor of the Central Bank, Dr. P. Nandalal Weerasinghe. Joining him were Mr. Duminda Hulangamuwa and Mr. Sagala Ratnayake,

who were also recognised as special guests of honor, along with the President of the Council, Mr. Sarath Jayamanne, during the inaugural session held on the 11th of September.

During his welcoming address, Prof. Watawala underscored the significant influence Value Creation could exert on the national economy, fostering sustainability. He also highlighted its potential to ameliorate the prevailing Economic Turmoil under the fresh theme of Domestic Debt Optimisation (DDO) coupled with Good Governance. He encouraged all categories of Accounting Professionals to assume a leading role in charting the path towards a more prosperous Sri Lanka with improved economic conditions. Prof. Watawala went on to explain that a key factor contributing to the present economic challenges stemmed from the elimination of Clause 55(2) from the Constitution back in 1972 by the government at that time. This alteration curtailed the autonomy of the Public Service and opened the door to corruption. As a result, politicians gained authority over the Public Service and its fiscal affairs. Consequently, the allocation of funds to various ministries became the sole prerogative of the respective ministers, sidelining genuine value creation that would have

served the broader interests of the public.

Prof. Watawala expressed his deep concern regarding the significant emigration of professionals from the country, a phenomenon that has sparked uncertainty about the nation's future. This trend is primarily attributed to the lack of transparency and accountability in management. He emphasised that his motivation for organising this conference under the theme "*Sustainability and Value Creation in an Economic Turmoil*" was to instil hope that accountants and the accounting profession could play a leading role in steering Sri Lanka towards a brighter future. He envisioned that the insights shared by the distinguished speakers at the conference would inspire those in positions of responsibility to seek guidance from experts when formulating policies. Furthermore, he believed that implementing digitalisation wherever possible could help combat corruption and facilitate more responsible decision-making processes that are transparent and accountable to the public.

Prof Watawala further said that he is disheartened about the professionals leaving the country in large numbers, triggering uncertainty for the future due mostly to the absence of transparency and accountability in management. He said his intention of having this conference on the theme, "*Sustainability and Value Creation in an Economic Turmoil*" was with the hope that the accountants and accounting profession would lead the country to a better Sri Lanka soon, at least after listening to the speeches of the eminent panel of speakers of



this conference. He hoped that those responsible will take guidance from the experts in making the policies. Once digitalisation is introduced wherever possible will reduce corruption and correct decisions will be taken by being accountable and transparent to the public.

Next, the keynote speaker, Governor of the Central Bank, Dr. P. Nandalal Weerasinghe, initiated his speech by explaining the novel concept of Domestic Debt Optimisation (DDO) to the audience, emphasising its potential impact on the Economic Turmoil. He clarified that Debt Optimisation is essentially the pursuit of the most effective solution for debt recovery. He then delved into the historical context, explaining how this approach emerged as a response to the pressing issue of high debt levels as a percentage of GDP. The aim was to reduce this ratio significantly while concurrently bolstering the credibility of external creditors. This, he explained, was crucial in demonstrating the legitimacy of Debt Recovery systems to the IMF, enabling the pursuit of additional borrowings, and formed the primary rationale for implementing DDO.

Additionally, he emphasised that as the implementation of DDO progresses, ongoing debates persist, and there is a strong commitment to maintaining complete transparency with all stakeholders. He proceeded to articulate some of the key points and concerns that have arisen during these deliberations regarding the proposal.

One issue under discussion pertained to the potential "Conflict of Interest" that could arise when the Central Bank takes on the





economic circumstances. Furthermore, he expounded on the cascading impact that would affect various sectors sequentially, creating a cycle of uncertainty that could ultimately lead to a systemic collapse of the entire economy. This would result in not only uncertainty for EPF members in terms of accessing their balances and earning interest but also a reciprocal effect of heightened tax burdens. The implementation of DDO, he explained, would play a pivotal role in restoring stability to the banking sector, thereby channelling its advantages towards the general public and

responsibility of managing the DDO. The conflict of interests, as he elaborated, stems from the Central Bank's multifaceted roles. Firstly, the Central Bank serves as the primary statutory authority responsible for overseeing monetary functions and debt management functions, essentially acting as a regulatory body in Sri Lanka's economic landscape. Secondly, for more than 56 years, the Central Bank has acted as the main custodian of the Employees' Provident Fund (EPF) for its members. Additionally, the Central Bank has held statutory powers to act as an agent for public debts for an extended period. However, the Governor countered that, in his view, the Central Bank's effective management of these conflicts of interest over the past five decades or more should be taken into consideration when contemplating its role in implementing the DDO as the primary solution to the said problems.

He continued by mentioning that some individuals pursued legal action by seeking an injunction in the Supreme Court to halt the implementation of DDO. However, given the absence of alternative solutions to address the issue, the Supreme Court decided to proceed with the DDO.

Addressing the query regarding why the EPF balance was singled out as the primary solution to the national issue, the Governor explained the repercussions on debt moratorium, the ensuing uncertainties leading to elevated interest rates in the banking sector, and the adverse effects on the public. Coupled with the burden of high tax rates, these factors collectively contributed to the recent years' challenging

depositors alike.

Upon the adoption of DDO, the EPF's interest rate, currently at 14%, will escalate to 30%, with the Central Bank's involvement contributing a mere 1.5%. Maintaining a stable Central Bank balance sheet will guarantee a sense of security for EPF members regarding their contributions. Ultimately, the Central Bank has demonstrated its credibility to the IMF and is poised to progress to the subsequent phase, encompassing agreements with external creditors and fostering a stabilised economy, thus laying the foundation for resource rebuilding.

Furthermore, he noted that negotiations for the upcoming year have been actively underway, culminating in the development of a distinctive proposal tailored to align with the Sri Lankan Banking System and the prevailing economic conditions. He expressed gratitude for the support he received from the Central Bank officers and other officials within the finance ministry who contributed to the



implementation of this debt security approach. He reiterated his willingness to embrace constructive criticism and alternative solutions, extending an invitation to educated stakeholders like the professional audience he was addressing.

He also emphasised that through the effective management of DDO, he is confident that there will be no need for a secondary phase of economic restructuring related to economic debt security in collaboration with the IMF.

Next, the following speaker delved into the topic of sustainable value creation within the Private Sector. This speaker, a fellow member of both Chartered Accountancy and Management Accountancy, and also serving as the Managing Partner of Ernest & Young in Sri Lanka and the Maldives, was Mr. Duminda Hulangamuwa. He shared his perspective, asserting that, to the best of his knowledge, the survival of the Government Sector hinges on the revenue generated through taxes by the Private Sector. Mr. Hulangamuwa also highlighted that it's the Private Sector, through value addition, that has managed to endure, even in the face of challenges such as the COVID-19 pandemic.



However, when considering the future and the concept of long-term sustainability, he emphasised the need for collective attention to environmental preservation. He underscored that a healthy environment is not only vital for future generations but also for our current well-being, particularly given the pressing concern of global warming. He mentioned that the government is collaborating with the public sector to facilitate the industry's progression toward achieving Green Certification and actively promoting energy conservation and zero carbon emissions. Furthermore, he stressed the importance of reutilising carbon emissions within the industry and suggested imposing substantial taxes on carbon emissions as a means of promoting sustainability.

He went on to explain that the primary obstacle the Private Sector encounters in achieving value creation for sustainability is related to customer demographics. He suggested that products equipped with QR Codes should offer traceability extending all the way to details such as soil quality, cultivation conditions, fertiliser usage, the manufacturer's reputation, country of origin, and adherence to prevailing international laws. To implement certifications aimed at satisfying a large consumer base, the speaker stressed the need for profitable companies, as these endeavours entail substantial expenses. He also emphasised the

necessity of revising the country's laws to align with these objectives.

Furthermore, he highlighted ongoing efforts within the state sector to pursue these goals. Lastly, he underscored the importance of integrating technology and digitalisation to meet customer demands and enhance customer satisfaction. Starting from the process of choosing a product from the global market that matches the customer demographic, all the way to delivering it to the customer through e-commerce transactions, the entire market flow must be regularly assessed. This evaluation should take into account various factors,

including geopolitical considerations, to ensure efficient supply chain management. It's important to note that these changes, which involve the adoption of digitalisation and advanced technology, typically entail substantial investments and higher associated costs. The Sri Lankan Private Sector should actively channel increased investments into these fields to generate value. This necessitates attracting investors both domestically and internationally. In light of these considerations, the country's legislation should be updated, taking care not to burden the private sector with additional taxes. The speaker emphasised that the taxation burden has reached its maximum threshold, and there should be no further imposition of additional taxes.

He highlighted the importance of viewing Free Trade Agreements (FTA) positively and leveraging them to access untapped markets in countries previously unexplored by Sri Lanka. In order to foster the growth of the Private Sector, he accentuated the need to confront challenges proactively, all while seizing the opportunities that hold the potential to create value for the future in terms of sustainability.

In conclusion, he stressed that the Private Sector is already burdened with the highest level of taxation, which serves as a primary source of government revenue. Therefore, it is imperative for



the government to reduce expenditure in the Public Sector and refrain from further recruitment, so as not to place additional strain on the Private Sector. He stressed that the government should implement reformed policies aimed at stabilising both the Public and Private Sectors, ensuring sustainability for both and ultimately navigating out of the ongoing Economic Turmoil. Finally, he expressed his gratitude to Prof. Watawala for granting him the opportunity to address a gathering of accounting professionals who are poised to assume leadership in guiding Sri Lanka out of this Economic Turmoil.

Next, the spotlight turned to the Special Guest of Honor, Mr. Sagala Rathnayake, who serves as the

Advisor to the Security Council and the President. He discussed the forthcoming extensive reform initiatives that the Government is poised to undertake. Mr. Rathnayake noted that not all of these reforms were mandated by the IMF, as the Government believed that Sri Lanka could attain economic stability independently. Recent results demonstrate the success of these endeavours, with inflation rates decreasing, improvements in essential sectors such as food, gas, fuel, and medicine, and a transition to a Debt restructuring program. Additionally, the government is now actively working to reduce import restrictions.

The pivotal issue highlighted was the introduction of



poverty into Sri Lanka due to the COVID Pandemic, he stressed. He elaborated on how the Government made decisions aimed at ensuring that payments reached low-income individuals directly into their bank accounts. Additionally, he mentioned the decision to replace the *Samurdhi* programme with targeted assistance to genuinely needy individuals. Furthermore, he outlined the government's strategy to address malnutrition, commencing with initiatives like the school milk programme and school meal programme, in collaboration with the World Food Organisation and various structural programmes. These programmes are set to be implemented with the assistance of other governments to promote economic growth.

He then stressed the imperative steps to be taken, including the implementation of a Data Protection law by March 2024, which will govern the digitisation of the entire economy. This initiative will be built upon the SLU-DI platform in collaboration with India, leveraging the Dar-Dar program with support from the Bill and Melinda Foundation. Furthermore, he highlighted the establishment of a robust foundation for various activities, including the Government payment system, through the Public Digital Infrastructure Institute's support, ensuring a solid footing in all endeavours.

A diversification programme is currently underway, managed by a dedicated team committed to transparent implementation to ensure public satisfaction. This approach mirrors the successful model seen in the agriculture sector's fertiliser programme, where all government activities are integrated with precision and complete transparency. A proficient team is currently engaged in this effort, ensuring transparency and implementing a real-time online mobility service to digitise the economy. This involves a legislative overhaul, merging the functions of BOI and EDB, in pursuit of growth in free

trade, akin to the Greater Colombo Economic Act of 1978. These reforms are being tailored to align with the present economic landscape, accompanied by the provision of transparent incentives. In the realm of tourism, there is a concerted effort to attract the high-end tourism segment, targeting individuals willing to spend around \$500 per night, among other initiatives.

Furthermore, a new company will oversee the implementation of Free Trade Development and the establishment of new industrial zones. He went on to explain that new free trade zones are planned for Hambantota and Port City, in collaboration with Chinese partners; Trincomalee, with support from India; and Bingiriya and Iranamadu, with assistance from Japan. Additionally, there is ongoing cooperation with Multi-lateral Trade Industrial Zones (ML-TIZ) to secure support for Sri Lanka.

Regarding Trincomalee, he explained that His Excellency the President has been actively fostering trade connectivity with India. This effort is rapidly advancing in the power and energy sectors, notably through the establishment of a Grid Connection that envisions becoming part of a global grid. Eventually, the plan is to transition to a National Grid, which will harness the potential of 40,000 units of renewable energy, particularly solar power. This initiative aims to cater to both high-level investors in large areas and smaller investors, with the government providing the necessary infrastructure for these endeavours. Furthermore, there are plans to establish collaborative ventures for fuel refinery projects. These projects would facilitate the flow of fuel to and from Sri Lanka, spanning from Vavuniya to Trincomalee and eventually returning to Colombo. The Sapugaskanda Refinery is also slated for an upgraded version, with the intention to relocate it to Trincomalee. Additionally, he discussed the investment prospects within the Port City,

highlighting the implementation of contemporary investment laws, which are currently being developed in cooperation with an international law firm.

He then shifted the discussion to the planned development of the Sri Lanka Ports Authority, emphasising its potential to contribute significantly to the country's economic value through investments. The development of the West Port Terminal, along with similar initiatives targeting other terminals, will lead to the growth of job opportunities and logistics infrastructure. Furthermore, he explained that these developments are expected to drive up the land value in key areas.

The education sector is set to undergo significant changes, including the immediate establishment of privately owned medical colleges and institutes of science and technology within existing facilities. Plans are also in place to collaborate with international universities and allow Sri Lankan educational institutions to play a role in enhancing these universities. These universities will offer education not only to domestic students but also to international students.

Furthermore, substantial technological advancements will be introduced into the educational system, specifically tailored to benefit the agricultural sector. Moreover, investors will collaborate with Sri Lankan farmers, both in terms of profit-sharing and knowledge-sharing. This partnership will encompass the application of technology and methods suitable for the agricultural sector.

He underscored the need to modernise the fisheries sector by drawing inspiration from international models and implementing stringent laws, including anti-corruption measures. These actions are expected to attract investments to Sri Lanka. Most importantly, he stressed the commitment to ensuring the peace of mind of the citizens of Sri Lanka.

Moreover, comprehensive security strategies are under review, with the intention of introducing new laws and public debt management regulations. All of these efforts take into account various factors, including climate change. Furthermore, collaboration with the Private Sector and the involvement of Sri Lankan experts working alongside their international counterparts are integral components in turning these plans into a reality.

In conclusion, he stressed the significant responsibility that rests upon individuals to accurately portray the

current state of affairs in the country. He called upon citizens to unite and collectively steer the nation in the right direction, unlocking its full potential and ensuring economic viability. Finally, he expressed his gratitude to the CMA President for extending the invitation to address this esteemed professional forum.

Next, it was President's Council Mr. Sarath Jayamanne's turn to highlight the importance of combatting corruption through accountability, transparency, and good governance. He began by discussing how anti-corruption measures contribute to achieving good governance within a country. He referenced a quote from the former leader and President of Singapore, Lee Kuan Yew, emphasising how Lee Kuan Yew had prioritised integrity as his inherent strength in elevating Singapore to its current stature, despite the absence of significant natural resources.

As his speech is presented separately in this journal with comprehensive details, let's proceed to the subsequent segment of the inauguration session.

This included the presentation of 10 Business Excellence Awards and then Platinum, Gold, Silver, and Bronze awards for the Sponsors.

And then the appointment of brand ambassadors for the CMA examination, with three scholarships together with three cash prizes were awarded to the students who achieved the top three positions in the recently conducted advanced-level examination in the commerce stream.

The inauguration session concluded joyfully with a light dinner. The beginning of the second day featured a full-day program comprising numerous educational sessions and panel discussions. Council Member Mr. Ruchira Perera and Prof. Lakshman R. Watawala, along with three political party representatives, led these discussions.

The 19th National Management Conference drew to a close at approximately 5:30 p.m. on September 12th. Mr. Hennayake Bandara extended his vote of thanks, capping off an exceptionally successful event. The event's resounding success was evident in the packed attendance on both days. Credit for this achievement goes to the CMA organising committee and the Council Members, under the leadership of Prof. Lakshman R. Watawala.



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