The Development of Public Sector Accounting and Financial Reporting in Sri Lanka

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Abstract

Accrual accounting practices in private sector and cash accounting practices in public sector are unconsciously institutionalized. However, in the recent past the Association of Public Finance Accountants of Sri Lanka, which became the public sector wing of the Institute of Chartered Accountants of Sri Lanka in 2012, has initiated accrual accounting practices to the public sector in the country. Authors, adopting Institutional Theory as theoretical lens and using semi-structured interviews, attempt to explain the recent developments in Public Sector Accounting and Financial Reporting Practices in Sri Lanka. The study finds that mimetic practices played a dominant role and the normative and coercive practices seemed poor in making the accrual accounting practices a success in the public entities and further the study concludes that the Public Sector Accrual Accounting Practices are still open to debate and research.

Key words: Accrual Accounting Practices, Mimetic Practices, Normative Practices, Coercive Practices, New Public Management, New Public Financial Management, Sri Lanka.

Introduction

The primary role of the classical accounting system was concentrated almost exclusively on financial transaction, events, and conditions and on the preparation of the financial statements for external users (Nagendrakumar, 2006). To the extent that the organizations accumulate and process the data which are of interest to management, the accounting system plays a second role, that is, management support. However, this second role was considered incidental and peripheral (Nagendrakumar, 2006).

Recent developments in the accounting field, however, demonstrate that the accounting profession, acting as a whole, has realized that governmental accounting is an area that is important, meaningful and critical to the continuing growth of a nation. All the Public Sector Accounting and Financial Reporting (PSAFR) reforms will not succeed unless the central, provincial and local governments invest their resources in better accounting and financial reporting practices. They must understand and recognize that appropriate accounting principles are the only instrument for true and fair disclosures. The appropriate accounting principle would be a matter to be chosen on the Continuum of Accounting Practices (CAP). CAP demonstrates all possible alternative accounting practices available for an organization: One extreme of the spectrum is cash accounting practices and on the other extreme is accrual accounting practices and several possible alternative accounting practices are available in between. Adherence to meaningful accounting principles enhances fiscal discipline, provides more relevant information for better decision making, fosters system efficiencies and lessens the likelihood that scare resources are dissipated because of poor controls.

Drawing attention to the need for research in Public Sector Accounting, Dean (1989) states that the field remains neglected in many countries. Therefore, several changes have to be made in the government accounting system in order to make public sector organizations more accountable for their performance (Mulgan 1997; Sinclair 1995; Hood 1995) and making the required changes in the Government Accounting System is possible only through sound research (Nagendrakumar, 2006).

The purpose of this study is to understand and explain the recent developments in Public Sector Accounting and Financial Reporting (PSAFR) in Sri Lanka. Institutional theory has been proved appropriate in similar kinds of investigations in previous studies (Oulasvirta, 2014; Jacobs, 2012). Accordingly, the concepts of organizational field and isomorphism are used in the present study for enquiry.

The rest of the paper deals with the literature review, methods, results and discussion, and conclusions. The literature review focuses on an early review of PSAFR in developing country perspectives, availability of a conceptual framework and standards for PSAFR, the debate on PSAFR reforms, and emphasis on New Public Financial Management. The methods section reveals the data collection and analysis of this study. Under results and discussion section the findings of this study are highlighted and finally the study states its conclusions.

Literature review

The main focus of the literature review is to highlight e recent developments in PSAFR reforms which are underway all over the world.

Accounting: An early view

The American Accounting Association defines accounting as the process of identifying, measuring, and communicating economic information to permit informed judgments and directions by users of the information (Raymond, 1991). Thus, accounting data summarizes primitive transactions or events through accounting policies and standards with the purpose of preserving value-relevant information about the firm (Olson, Guthrie, & Humphrey, 1999).

Financial accounting is broadly divided into two categories: cash accounting and accrual accounting. Cash accounting records the transactions once the cash is received or paid whereas accrual accounting records the transactions, events and conditions as and when they occur irrespective of cash flows. It is interesting to note that both private and government sectors were used to adopting cash-based accounting practices until the 16th century with a focus on the single entry system (Al-husaini & Gowda, 2008). The basic requirements for presenting accounts to shareholders were almost unknown before 18th century and became common only from the 1820s, usually in the form of cash-based receipts and payments accounts, which enabled investors to determine the legitimacy of the dividend payments and enabled them to calculate a cash-based version of the rate of return (McCartney & Arnold, 2012).

Under the traditional model of public administration cash-based accounting practices were initially considered as being more appropriate for the public sector. The emphasis was on compliance with rules and regulations and one of the results of this system is the budget out-turn report which was primarily designed to contribute to increased control of public money (Monsen, 2010). The budget out-turn report in Sri Lankan practice is the ‘Annual Appropriation Account”. The cash basis of accounting has served almost all governments well for at least the last two hundred years. This could be conveniently proved since the International Federation of Accountants (IFAC) and its Public Sector Committee on Public Sector Accounting:

International Public Sector Accounting Standards Board (IPSASB), at the initial stage issued the standard on the cash basis of accounting (Wynne, 2003).

While the government sector remained on a cash basis, the private sector moved on to the generally accepted accounting principles (GAAPs), which emphasized the adoption of accrual accounting practices (Al-husaini & Gowda, 2008). IFAC has commented extensively on 12 positive corners of accrual-based accounting for organizations. The arguments for using accrual-based accounting in place of cash-based accounting often resonate with ideas relating to such issues as better information for decision-making and more accurate costs (Al-husaini & Gowda, 2008). The effectiveness of the budget at the macro level and the programme and performance budget at the micro level essentially depends upon the adoption of accrual based accounting practices, which is at the heart of the GAAPs (Al-husaini & Gowda, 2008).

Public Sector Accounting and Financial Reporting (PSAFR): Developing Country Perspectives

The purpose of PSAFR is to provide useful financial information (Christensen, 2010) and it should be regarded as a financial management information and reporting system for use of Parliament, public sector management, and the general public as the key stakeholders (Barton, 2005). Information can be useful only when it satisfies certain criteria and is appropriate for the functions and roles of the accounting entity and as a result, the qualitative aspects of financial reporting become significant, namely, relevance, reliability, comparability and understandability (Barton, 2005). Financial reporting might be internal: presented to management for specific purposes, or external: presented to stakeholders for general purposes.

This paper concentrates on General Purpose Financial Reporting (GPFR) in the public sector since accrual accounting practices are brought in through the public sector accounting standards to improve external reporting. The requirement of GPFR is to meet the needs of the people interested in public sector activities (Miah, 1991). Users of GPFR want an annual financial report, including what the government owes and what it owns, where its revenue came from and where they were spent, and including a report on the full cost of the programmes (Jones, 1992). Accordingly, Chan (2003) claims that government accounting has three purposes: its basic purpose is to safeguard the public treasury by preventing and detecting corruption and graft; the intermediate purpose is to facilitate sound financial management; and the advanced purpose of government accounting is to discharge public accountability. Further, taking a wider perspective, accounting also provides inputs for budget policy formulation and decisions (Ellwood & Newbury, 2006).

The literature reports inadequacies in public sector accounting and financial management performance in the developing world (Blondal, 1998; Craner & Jones, 1990; Dean, 1988; 1989; Ghartey, 1985). Very often poor countries are poor in financial management performance, which has made financial management decision-making unrealistic and inconsistent (Blondal, 1988). Proper accounting data and interpretation thereof is very much needed for sound, economic and proper management decisions (Gujarathi & Dean, 1993). Many studies point to the deficiency in accounting systems as an important weakness in the management of the public sector of most, and especially, developing countries (Blondall, 1988; Craner & Jones, 1990; Deen 1988; 1989; Ghartey, 1985). Further deficiency in accounting systems is the main reason for improper, inaccurate and delayed financial information communication. Monitoring the performance of the public sector entities are viewed as a problem in both developed and developing countries (Deen, 1989) owing to internal and external politics and socio-cultural influences. ‘Deficiency’ in public sector accounting and financial management has been identified as a characteristic of socio-economic underdevelopment (Enthoven, 1988; Craner &

Jones, 1990). Further, poor countries generally have poor governmental accounting and financial management systems (Dean, 1989).

Financial information is the foundation of financial accountability which is produced through PSAFR (Miah, 1991). In order to satisfy fully and effectively the financial accountability function of public sector entities attention should be given not only to the quantity but also to the quality of information provided to users (MIah, 1991). The efficient use of financial resources is particularly important in public entities because of their significant impact on a nation's overall social and economic life (Miah, 1991). Thus, the public accounting profession's appreciation of the need for separate financial reporting standards for the public sector because of their unique operating environment is well accepted by the world (Miah, 1991).

Further, remarkable pressure was exerted by supra-nationals such as WB and IMF on adopting the accrual accounting practices in developing counties since they always depend on funding by supra-nationals. These pressures are imposed through International Financial Reporting Standards (IFRSs) and International Public Sector Accounting Standards (IPSASs) and it is argued that introducing true and fair view accounting, like IFRS, that relies on difficult-to-verify information, may not be suitable for improving accounting information quality in the context of a weak corporate governance system (Kaserer & Klingler, 2008). Moreover, it is argued that the corporate governance system of developing and less developed countries is poor and IPSASs are supported by IFRS. As a result, the application of IPSASs to weak corporate governance countries is always questionable.

Conceptual framework and standards for PSAFR

The Federation of Accounting Standards Board (FASB) defines a conceptual framework for accounting as a constitution, a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and prescribes the nature, function and limits of financial accounting and financial statements. Though some consideration of both conceptual frameworks and implementation is evident in the public sector, the debate as to whether generic approaches, especially private sector-based, are relevant and possible and thus how to regulate financial reporting in the public services remains unanswered (Mayston, 1992 & 1993).

Accounting standards are the principles that guide and standardize accounting practices and they are a significant part of accounting practices since the financial statements become meaningful and harmonized only when they are applied across a wide variety of organizations. The recent past has seen a global movement towards the development of comprehensive international accounting and auditing standards for financial reporting by public and private companies and non-business organizations (Bewley, 2008). Accordingly, a new movement to internationally standardize PSAFR started in 2000 and was led by IFAC (Oulasvirta, 2010). The special committee of IFAC named IPSASB has published 32 public sector accounting standards for all public sector entities, whether central governments or provincial or local governments. Accounting researchers advocate that increased accounting harmonization can only become efficient only when all countries interpret the standards in the same way (Sjolander, 2009) and the possibility of applying the same set of standards for all nations is highly questionable considering various political, social and economic factors.

IFAC, in fact, has in recent years become an integral player in global financial governance (Oulasvirta, 2010). IFAC declares that its aim is to serve the public interest and to contribute to the efficiency of the global economy (Oulasvirta, 2010). The objective of IPSASB of IFAC is to serve the public interest by developing high-quality accounting standards for use by public-sector entities around the world in the preparation of general-purpose financial statements (GPFS) (Oulasvirta, 2010). A general goal to develop GPFS in the public sector can hardly raise any protests. The IFAC has recommended that public sector entities should distance themselves from traditional cash- based accounting and move to accrual-based accounting regulated by IPSASB (Oulasvirta, 2010).

The debate

It is argued that a cash-based system does not provide information about the total cost of government activities (Al-husaini & Gowda, 2008). In addition, a failure to recognize an allocated cost of capital assets makes it more difficult to understand the ongoing financial implications of maintaining a given level of public service (Buhr, 2012). According to Soverchia (2012), cash accounting could not fit in with public resource management control, not being able to highlight the connection between resource consumption and the achieved results in the public sector.

Thus, lack of information makes it more difficult to make decisions about expanding or contracting public programmes (Buhr, 2012). There are issues related to public sector liabilities. Prior to the implementation of accrual-based accounting, many governments were building up pension liabilities and liabilities for other social benefits that went unrecorded in the financial statements (Buhr, 2012). As discussed earlier, cash-based accounting has its dominant financial statement - a budget out-turn report - that shows cash spent against budget expenditure. However, critics of cash-based accounting argue that this does not give an accurate picture of all the costs, or show the actual use made of capital assets and provide a complete record of what is owed and what is due. As a result, the information is incomplete and often undermines the ability of decision makers to make decisions that lead to effective and inefficient outcomes (Al-husaini & Gowda, 2008). Therefore, cash-based accounting practices are always said to not reflect the true state of affairs.

There has been widespread adoption of Public Sector Accrual Accounting Practices (PSAAPs) and though recently voices have been raised about its impacts (Barton, 2005; Carlin, 2005), those impacts are largely unknown (Christensen, 2010). Only some initial assessments of the impact of PSAAPs have been made to date (Barton, 2005; Dhanani & Connolly, 2012). The debate on the crucial subject of cash-based accounting and accrual-based accounting in the public sector is still open (Carlin, 2005; Grossi & Soverchia, 2011). Moreover, recent literature in the public sector accounting has critically questioned the claimed benefits of accrual reports for government organizations when it comes to actual implementation (Carlin, 2005; Christensen, 2010; Christiaens & Rommel, 2008; Dhanani & Connolly, 2012; Harun & Kamase, 2012).

The debate on the implementation of PSAAPs arose mostly when New Public Financial Management came into existence (Soverchia, 2012) since the modes of operation of governments and of the business sector are very different and further it was argued that accounting standards must be tailored to suit the specific information needs of each sector (Barton, 2005). On a larger scale, the very nature of the indicators in accrual financial statements differs between the private sector and the public sector because the public sector does not exist to maximize profits and further, the logic of interpreting a government's operating results is more complicated. Several authors (Carnegie & Napier, 2011) have commented on problems regarding the reliability and usefulness of applying accrual accounting concepts from business to capitalize public sector resources such as libraries and heritage assets.

Much tension is observed in countries where accrual accounting has been adopted (Buhr, 2012). Initially, Australia adopted business-based accounting standards with a few modest extensions covering the public sector. However, first, there was much controversy over the displacement of cash-based accounting and budgeting systems by accrual-based accounting and second, whether the Australian Accounting System was appropriate for the public sector (Barton, 2011). Further, with the adoption of IFRS, the underlying International Accounting Standards Board's (IASB) conceptual framework presented real challenges to New Zealand's standard-setters (Casey, 2006). A key challenge is that IASB's conceptual framework is driven solely by the reporting needs of profit entities and, at this stage, IASB ignored their applicability to public sector organizations (Casey, 2006).

In developing economies, government-owned institutions are dominant economic forces and as such require an efficient and effective government financial management system (Jallow, 2008). Often the accounting systems installed in those countries were often too sophisticated for local requirements because they were imported from developed jurisdictions to underdeveloped ones (Jallow, 2008). Moreover, even though accrual accounting was adopted by many countries, the nature of the accrual accounting adopted and the way in which the accrual accounting was adopted played out differently (Buhr, 2012). This was due, in large part, to differences in the timing and speed of change required by government, as well as the role played by the profession (Buhr, 2012).

Although there is already significant work in the area of PSAFR, there is still insufficient contextually rooted consideration of the technical and conceptual nature of the accounts to be produced (Broadbent & Guthrie, 2008). The basic question for researchers with regard to the conceptual framework and accounting standards is whether the needs of shareholders in the private sector and stakeholders in public services are the same (Broadbent & Guthrie, 2008).

Therefore, it could be argued that governments make an effort to introduce private sector techniques in PSAFR but practical implementation is a very long and difficult process (Bikiene, 2011). As a result, a formal adoption of accrual-based accounting would not automatically produce the intended outcomes as officially planned (Harun & Kamase, 2012). Thus, after some years of enthusiastic adoption of new tools and techniques, an increasing body of literature has highlighted the fact that reforms do not always lead to the expected results (Olson, Guthrie, & Humphrey, 1999; Lapsley, 1999; Helden, 2005). The key factors (macro and micro) in the reform process have varying effects between countries (Grossi & Soverchia, 2011) and for example, Governmental accounting in Europe diverges between countries and within countries. This diversity ranges from fundamental differences in recording systems to different measurement rules and disclosure requirements (Jones & Abraham, 2007).

A conceptual pattern has not yet been identified and followed when institutionalizing the Public Sector Accrual Accounting Practices (PSAAPs) reforms, resulting in an uncritical and misleading transferring of business practices to the public sector (Broadbent & Guthrie, 1998; Barton, 2005; Christiaens and Rommel, 2008, Grossi & Soverchia, 2011). Though the international harmonization of Public Sector Accounting Standards (PSASs) appears to be inevitable, little evidence exists regarding whether harmonizing accounting standards will result in the actual harmonization of accounting practices since IFAC and its special board IPSASB are private sector bodies and IFAC had failed to do a thorough assessment and development of a conceptual framework for public sector accounting and financial reporting. It is good to note at this juncture that IPSASB has come out with the draft conceptual framework particularly for the public sector in 2015 which is very much similar to the accounting framework for IFRS. Further, IFAC recommends applicability of the whole set of standards. But most developing countries adapt partial standards and try to subordinate the traditional system to a partially incorporated system.

Cash-based accounting is a simple, robust and well-tried and tested approach to accounting in public sector organizations whereas accrual-based accounting is a complex, well-tried and tested approach in the private sector. Even on its own terms for accrual-based accounting to account adequately for governments it must prove its relevancy for the government's unique aspects of transactions before putting it into operation. For many countries, especially transitional and underdeveloped countries the adoption of accrual-based accounting in their public sector organizations may not be appropriate and certainly should not be considered to be a high priority (Wynne, 2003).

New Public Financial Management Emphasis

The discussion so far shows that no endeavor in PSAFR has attracted more attention and criticism than the effort to create a comprehensive set of concepts for theory and practice (Miller, 2012). Developing countries have taken various measures to reform their economic and developmental policies and to integrate themselves with the world economy (Al-husaini & Gowda, 2008). Various exogenous factors have accelerated the pressure for reforms: the demands made by supra-nationals, the establishment of the World Trade Organization (WTO), the partnership agreements made with groups of countries (e.g., EU) (Al-husaini & Gowda, 2008). This pressure was due to the movement of New Public Management (NPM) which was initiated during the latter part of the 1970s. NPM simply means making the public sector accept and adopt private sector practices in the public sector. Accordingly, the nations were thinking about how PSAFR could be improved in line with the NPM movement and that gave rise to New Public Financial Management (NPFM), where the public sector is encouraged to accept and adopt the private sector accounting and financial reporting practices in public entities.

In fact, during the 1980s many politicians, academics, citizens and representatives from the private sector criticized the public sector because of its inefficiency and ineffectiveness. This critique resulted in Traditional Public Financial Management disappearing and NPFM emerging (Olson, Guthrie, & Humphrey, 1999; Helden, 2005). Under the traditional model, the emphasis is on control but under the NPFM model the emphasis is on efficiency and so the private sector style of financial statements under the accrual concept are recommended for introduction (Wynne, 2003). As a result, professional accounting standards have been applied in the public sector around the world as part of the process of adopting accrual-based accounting.

The application of modern business type accrual accounting practices is becoming common in the public sector all over the world. However, the application patterns and the modalities differ from country to country. The debate on the suitability of the PSAAPs is also another point of tension which has cropped up from the very beginning of the reforms initiatives. Thus, the developing countries need to show special care and diligence in accepting or rejecting the PSAAPs reforms in their respective countries.

Theoretical background

Institutional theory is the theoretical basis of understanding and explaining the present research issue. Institutional theory focuses on the deeper and more resilient aspects of social structure. It considers the processes: cognitive, normative and regulative by which structures, including schemes, rules, norms, and routines become established as authoritative guidelines for social behavior (Scott, 2014). Mimetic practices are copying the common beliefs and shared logic of action. Normative practices are certification and accreditation activities of the organizations. Regulative practices are rules, laws and sanctions imposed by the government.

Recent developments in PSAFR become the organizational field of this study. An organizational field, according to Di Maggio and Powell (1983), constitutes a set of organizations that, in the aggregate, forms a recognized area of institutional life comprising key suppliers, resource and product consumers, and other organizations that produce similar services and regulatory agencies. Thus, this study questions whether recent developments in the public sector are due to mimetic or normative or regulatory practices, which have been informed as the three important forces in the institutional environment (Scott, 2014).

Methods

The present study covers the period from independence to date to track recent developments in PSAFR in Sri Lanka and since it is related to recent developments in PSAFR, it is assumed that top level financial management is empowered to take such development decisions. As a result, the data requirements for the study could be rich at top-level management and therefore purposive sampling was selected. The sample comprised three types of agencies, which are initiating agencies: the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Association of Public Finance Accountants of Sri Lanka (APFASL), the implementing agency: Eastern Provincial Council (EPC), and the controlling agency: the Treasury and the divorce voice: Chartered Institute of Management Accountants (CIMA) (Appendix 1). The EPC was purposively selected as the implementing agency since the earlier studies revealed that the financial reporting of the EPC is poor (Nagendrakumar, 2014, 2014a & 2006). Data for this study was gathered through 26 semi-structured interviews. Chartered Accountants, Accountants from the Sri Lanka Accountants Service and CIMA Accountants were interviewed. The interview lasted 45 minutes on average. The questions were framed based on mimetic, normative and regulatory practices in recent developments in PSAFR. The data was coded using NVivo and then thematic analysis was carried out. Thematic analysis is a method for identifying, analyzing, and reporting patterns (themes) within the data (Braun & Clarke, 2006). Themes were found by familiarizing ourselves with the data set, transcribing verbatim, generating initial codes, searching for themes, reviewing the themes, and defining and naming the themes.

Results and Discussion

Sri Lanka favours following whatever good things found in the international arena. This is claimed by IA/01 as,

> *"Good thing we can [do] anything any ahh(smiles) it is better to follow the good things from borrowed or something. It is better no. (smiles)…"*

It was found that recent developments in PSAFR practices in Sri Lanka are based on mimetic practices. IA/07 claims this as,

> *"Earlier we borrowed the old FR and now we [have] borrowed the modern accounting standards"*

Often Sri Lanka is used to mimic international best practices in other disciplines as well. IA/08 claims this as,

> *"All are coming like that. Think about these things. If you take the Law it is based on decided cases. Someone might have given solution to a problem at that time [and] based on that only the practice of Law has come. We [accounting] also same like that (smiles). In total international wise they have started. Someone need to start, no"?*

Sri Lanka in recent years has introduced changes in public sector financial management especially the introduction of accrual- based accounting practices in public entities which has created a new trend in public sector accounting (Nagendrakumar, 2014). This has been done through mimicking international best accounting practices. This is claimed by DV/02 as,

> *"The world over the trend was public sector accounting standards. So if you want to keep up the best with the rest of the world then you have to introduce it."*

This is true for private sector accounting practices as well and this is claimed by InA/04 as,

> *"We adopted same IFRS in Sri Lanka also to be followed by the Sri Lankan quoted and non-quoted public companies. So what we adopt is the system which is already been issued and announced by the UK based authorities. So we just with some modifications adapt to Sri Lankan accounting environment. That's all. Basically, we follow which is suitable for us. We adopt the accounting standards and the auditing standards based on the suitableness. Basically they are mother organizations".*

As a result, mimicking is the force by which developments are brought into the private and public sector accounting field. The same footage of international best accounting practices for the public and private sector has been claimed by InA/03 as,

> *"But if you look at the source for IPSAS [International Public Sector Accounting Standards] it is nothing but IFRS [International Financial reporting Standards] and if you look at SLAS [Sri Lanka Accounting Standards] the source is also the same. So whether it is IPSAS or SLAS the source is IFRS and therefore there is no conflict. So it is almost on the same footing. Financial accounting and reporting principles are the same. Of course now the IPSAS board is trying to have a separate [accounting] framework [for the public sector]. But if you ultimately look at the framework that also will be identical [with IFRS]".*

Sri Lanka benchmarks the best international accounting practices since the private and the public sector have not come out with their own set of accounting practices. InA/03 put this as,

> *"But so far to my knowledge although the different schools of thoughts have different views there is no system [particularly to the public sector] that has immerged which can be acceptable to the public sector. If there is an alternative then of course we can think of whether that will suit the requirement [but the alternative is not there]".*

As a result, Sri Lanka is unable to develop its own set of national accounting practices. InA/01 explains this as,

> *"Even we are going for preparing our own standards, I don't know how it is worth full because we have good product right? We have good car from japan. If you can make a good car with technical sound car from Sri Lanka, that is good. Until we do it, what to do? So we have to accept the reality".*

The main reason why Sri Lanka is not in a position to initiate its own accounting practices is that it does not have skilled public sector accounting experts; it cannot afford the cost involved in doing research; there is ignorance among the academia about this particular area (Guthrie, 2008). This is partly claimed by InA/01 as,

> *"So we can't say we need only locally created standards. There are no such standards anywhere in the world to my knowledge. All follow IFAC standards. All the institutes are members of the IFAC [and] because those are advanced, those are well developed. There were lots of researches before adopting those standards by the IFAC. There was lots of research. There are lots of experts. That's how those standards have been formulated. So we simply got those standards and do some modifications and apply. Nothing wrong so those are good standards".*

And it is partly claimed by IA/19 as,

> *"We do not have experts in the field"*

And, it is partly claimed by InA/03 as,

"But that also if you look at even the professional bodies all over the world they are not doing their own research and development. They are all picking up the international best practices because they are also part of it no"?

So it is very clear that the country is well exposed to mimicking the best accounting practices and of course with slight changes to suit the Sri Lankan context. This is claimed by DV/01 as,

"It is a kind of mirror. So [it is] your image. You take as it is. Do whatever minimum modification to and apply as it is. It is coming actually imported from UK".

One camp argues that a standard setting process is expected to accommodate local law, regulations, and political institutions, so that the establishment of unique national standards provides higher net social benefits than international standards (Wynne, 2003, Oulasvirta, 2010&2014). Further, fundamental differences between the public sector and the commercial sector require the reporting framework to be designed specifically for the sector, not a minimalist revision of a commercial framework (Newbury, 2006). However, it is argued that SLPASs are based on International Public Sector Accounting Standards (IPSASs). IPSASs are not supported by the conceptual framework and further, it is argued that there are many flaws in the IPSASB's standard setting work (Oulasvirta, 2010). Therefore, it is argued that the PSAAPs reforms based on IPSASs operates with many flaws.

Almost many setters of conceptual framework are the professional bodies in the relevant field (Jones,1992) and it is substantially true for the private sector accounting profession in Sri Lanka since ICASL is empowered to set accounting standards for private sector and government business organizations. However, Sri Lanka's public sector accounting profession has not been successful in standing as an institutionalized set up for their profession. It does not mean that they did not take steps to organize themselves into a logical institutional pattern, instead, during the 1990s the public sector profession came under one umbrella called the Institute of Public Finance and Development Accountancy (IPFDA). This institute implemented the major part of the Asian Development Bank and Ministry of Finance - Financial Management Training Programme during the 1990s. Further, IPFDA endeavoured to incorporate itself as the distinct public sector accounting professional body by passing an Act of Parliament. However, the effort failed because of some political, economic and institutional barriers. Yet, IPFDA did not give up the effort to reform public sector accounting and recently it was incorporated as APFASL and it became the public sector wing of ICASL. As a result, ICASL joined the public sector PSAAPs reforms and officially issued ten Sri Lanka Public Sector Accounting Standards (SLPSASs).

The enforceability SLPSASs is another aspect that matters in reforming PSAFR (Jones, 1992). Enforceability could be provoked by moral governance and legitimization (Scott, 2014). Moral governance is achieved by incorporating the normative practices of the profession (Scott, 2014). Normative practices are the product of professional standards and accreditation practices (Dimagio and Powell, 1983). ICASL is a member of IFAC and APFASL has been accredited by ICASL and the Chartered Institute of Public Finance Accountants (CIPFA) London. Yet the effort to make SLPSASs morally governed is not conducive since ICASL does not have enforcing ability of SLPSASs to the public sector. This is spelt out in the preface to the SLPSASs as follows:

"Standing alone, ICASL has no power to require compliance with SLPSASs. The success of the ICASL's efforts is dependent upon the recognition and support for its work from many different interested groups acting within public sector".

IA/13 claims this as,

“It [APFASL] is not [legally] created. They should come within this [Treasury hierarchy]. It is not within the Treasury. APFA has joint with ICASL and they develop this [SLPSASs] and they are directly asking us to do. What they do is they operate as a semi government separately. They need to become as a government institution”.

ICASL is governed by the Accounting and Auditing Standards Act No: 15 of 1995 and it has been authorized to regulate the accounting practices of the business activities in the country. However, it reserves the right of establishing the accounting standards and guidelines for financial reporting to the public entities to the government. This is spelt out in the preface to the SLPSASs as follows:

“The ICASL acknowledges the right of Sri Lanka government to establish accounting standards and guidelines for financial reporting in public sector”.

It is worth noting that, as spelt out above, there is no specific legally binding push for SLPSASs by the Sri Lankan government. However, the circulars of the Ministry of Finance apparently support the reforms process and the Secretary to the Treasury has positively commented on the adoption of SLPSASs in Public Enterprises in his message to the Volumes 1 & 11 of the SLPSASs. Yet it is argued that circulars and positive commendations by the top officers could not make the final result binding but instead they had to be legally enforced. The legal enforcement of any matter depends on the institutional capacity of the social domain in which it is going to be instituted.

Institutional capacity is paramount in reforming PSAAPs reforms (Nagendrakumar, 2014). In a government organization, institutional capacity can be defined as the organization’s ability to identify problems, to develop and evaluate policy alternatives, and to operate the government’s programmes (Eggleton, 2012). Thus in an organizational context, the level of the institutional capacity of an organization would depend on the technical capacity and the human resources capacity (Harun & Kamase, 2012). PSAFR occurs in social and economic enterprises and it is influenced by the political enterprise. Therefore, it is argued that the institutional capacity with regard to PSAFR reform is vital. However, the institutional capacity of the Sri Lanka PSAFR environment is not conducive (Nagendrakumar, 2006, 2014 & 2014a).

Institutional capacity is strengthened by combining the technical capacity and human resource capacity with respect of PSAFR (Nagendrakumar, 2014a). Technical capacity could be conceptualized as the ability of an institution to decide on and pursue its goals, to perform tasks, and to improve performance constantly. Technical capacity of PSAFR is strengthened by combining the accounting system capacity, internal control system capacity and regulatory mechanism capacity (Nagendrakumar, 2014a). The old Sri Lankan PSAFR has been unconsciously institutionalized. Most accountants in the public sector perceive FR as the conceptual framework for accounting even after introducing the PSAAPs reforms. Further, SLPSASs are not supported by a conceptual framework for PSAAPs but it is common in private sector accounting standards. However, the preface to the SLPSASs pinpoints that it is appreciable if the private sector conceptual framework for accounting is adopted in the public sector. It is again a complication which makes Public Sector Accountants get away from the SLPSASs since they are not professionally qualified Chartered Accountants.

Human resource capacity is strengthened by training and development and job satisfaction of the accounting staff of the public sector (Nagendrakumar, 2014a). Human resource availability is one of the most important factors that determine the extent to which institutional capacity of an organization can successfully implement a new accounting reform (Christensen, 2010; Harun & Kamase, 2012). Despite the PSAAPs reforms unfortunately the Sri Lanka Accounting Service has already lost two important accounting support services, viz. Sri Lanka Bookkeeper Service and Sri Lanka Storekeeper Service and further, some of the accountant cadres have been revoked by the Cadres Commission. This is claimed by IA/13 as,

> *"Cadre commission has removed three Accountants cadres. The Sri Lanka Book Keeper Service and Sri Lanka Store Keeper Service were there earlier and since they have also been demolished we [Accountants] rely on ordinary staff and trained them to do".*

Another important aspect which contributes to the development of PSAFR is the minimization of the contest between the responsible organizations. One of the issues raised in the public sector accounting literature is the "contest"' between the accounting profession regulators (e.g., ICASL) and public sector regulators (e.g., Treasuries), for control of the policy formulation process (Ryan, 1999). APFASL (formerly IPFDA), which has been highly interested for a long time in the development of the public sector accounting, does not have the authority to issue, experts to set, and authority to enforce SLPSASs. ICASL who are the experts in setting SLPSASs does not have the power to issue and enforce them in the public sector. The Ministry of Finance and Treasury who are empowered to issue and enforce SLPSASs do not have experts in the field. InA/03 claims this as,

> *Claim-1*
>
> *"That is what I mentioned. Now once it is brought into the part of the law then it becomes mandatory. Currently it is a Treasury direction. So to the some extent they are mandatory because Auditor General can qualify the accounts if they [public sector] do not comply. So to that extent they are compulsory. But it becomes legally mandatory once the Act is amended to incorporate these requirements".*
>
> *Claim - 2*
>
> *"Circular instructions have been already given by the Treasury. So it becomes legally required only once the law is passed. Then people can go to courts also for noncompliance and things like that. That will come later".*

InA/02 explains this as,

> *"Now SL accounting and auditing standards Act No: 15 of 1995 empowers the charted institute to issue the SLASs. Now treasury has issued instructions to Sri Lanka Accounting and Auditing Monitoring Board to amend the Sri Lanka accounting and auditing standards Act to enable the charted institute to issue the public sector accounting standards also".*

PSAFR has not been regulated and it is not compulsory for government departments in Sri Lanka. Unless it is made compulsory by the top the developments will not be adopted by the bottom level and the financial statements will not be based on accrual accounting principles. For that, incorporating a separate body for public sector accounting would be a much better option to go ahead with the reforms. InA/04 explains this as,

> *"So having considered the public sector development and public sector accountants, another body is necessary because that has to come from the what do you call incorporation of Act and government regulations are important and parliamentary Act is important"*

The effort to incorporate a separate body for the public sector was attempted several times but without success. This is explained by InA/02 as, *“Many times our efforts were in wane in the last movement. So sometimes we have even drafted the Act even. We have gone to that extent, but these all totally pushed away”.*

Public sector organizations had already been required to adhere to the Financial Regulations (FR). It has been in operation and followed for a long time in history from independence in Sri Lanka. Further, the preparation and submission of budget are also compulsory for all government departments. It was suggested that PSAFR has to be made the same as FR and budget by passing an Act of Parliament. InA/04 explains this as,

“Enactment is coming. Those enactments are very important to bind the people in the public sector. So that there has to be separate public body through this enactment like budgetary Act and other things. Otherwise it [implementation] is an option. So people are on both sides. That option; some are with adoption and some are without adoption because options is there”.

Government has realized the importance of the PSAFR reforms and they have pledged support for it. The Auditor General’s Department has agreed to conduct the government audit based on accrual accounting practices. However, the government has other priority areas of concern in its agenda and thus, the developments in PSAFR are getting delayed. InA/02 explains this as,

“Even the government has accepted the need for the PSAFR reforms; government’s blessing is also there. Only thing is government is having the other priorities. That is very reason that they are not giving priority to this”.

The Treasury has not issued circulars instructing the PEs to implement accrual accounting practices. This is claimed by InA/02 as,

“That is fine obviously, that has to be really done by the treasury through the circulars. So far treasury has not issued circular. In fact, the Treasury problem is treasury has no competent people to do. Today even to draft the circular there is no competent people in the public entities. There are no charted accountants in the treasury. All charted accountants are transferred out. Only one or two are there, no people. So there is a practical difficulty to implement that is the problem we having really”.

Further, the Treasury has not issued a guideline for adopting accrual accounting practices in PEs. InA/02 puts this as,

“So, for that [implement] they government have to provide the necessary facilities such as the circular instructions and how to do it and those things they have to guide which should come from the Treasury and also sometimes incentives for them[accounting staff]

Taking all the points above the enforceability of the recent developments in PSAFR could be illustrated in Table 1 as follows:

Table 1: Present situation of institutional dimensions of PSAFR developments

	Mimetic practice	Normative practice	Coercive practice
APFASL-Pool of Public Sector Accountants	YES	NO	NO
ICASL-Pool of Private Sector Accountants	YES	NO	NO
MOF and Treasury- Regulating body for public sector accounting	Yes	Yes	Yes

Source: Interview data

Since complex problems prevail in the country with respect of PSAAPs reform, it is urged that the associated parties must develop sound and effective negotiations among themselves. It is understood that negotiations among some of the members of the ICASL, APFASL and Treasury are poor and as a result there is a continuing lack of progress in government accounting and financial reporting. This is attributable partly to the lack of interest in and understanding the issues related to public sector accounting among newly empowered electors and successive governments have been reluctant to push hard for accounting reforms, not least because improved accountability poses a significant threat to politicians' and bureaucrats' overall income levels (Harrun, 2007). Therefore, even though Sri Lanka has stepped into PSAAPs still it is argued that the progress of the system is not conducive due to political, institutional and economic reasons. IA/17 put this as,

> *"They [related parties] should be educated. Call each level individually and educate them. When we get ready to implement if the CEO [Chief Executive Officer] of the province i.e. the CM [Chief Minister] is not giving us the fullest support we cannot go ahead. Therefore each and every group must be given knowledge about the importance of this".*

Therefore, this research identifies first, that the accounting profession in Sri Lanka is used to mimic the international best accounting practices for the PSAFR from its inception, second, that Sri Lanka has developed tight enforcement practices for FR for public sector accounting, and third, that the modern PSAAPs reforms in Sri Lanka have not been well supported by the regulatory dimension of Institutional Theory.

Conclusion

It is argued that PSAAPs reforms must be logically enforced. The mimetic practices in relation to PSAFR are effective in Sri Lanka. However, the normative practices and coercive practices are lacking in rigour in implementing the reforms in the public sector. Therefore, the normative practices should be strengthened among the government accounting staff and those normative practices must be backed by specific regulative practices by the government (i.e., enactment of laws). Regulative enforcement is possible in three ways: either ICASL could be empowered by amending the existing Act of Parliament or APFASL could be legally enacted as the separate public sector accounting professional institution or a new institution could be legally established under the Treasury which may reduce the conflict of interest among the actors and delays in PSAAPs reforms. Further, a positive attitude from political actors is very important if Sri Lanka is to realize the positive consequences of PSAAPs reforms.

The present study employs Institutional Theory as a theoretical lens for Public Sector Accounting research in Sri Lanka. Further, the findings of this research may alert the public sector higher officials and other parties to make correct policy decisions with regard to PSAAPs reforms. However, the basis of accounting which is to be adopted should be decided in the context of the overall priorities of the reform process and not just on the basis of the perceived superiority of one basis of accounting over another. Therefore, accrual accounting may facilitate PSAAPs reforms but it is not an end in itself (Wynne, 2003). Consequently, the appropriateness of PSAAPs for Sri Lanka is open to debate and further research.

Further, research in the field of PSAAPs seems somewhat behind and it is a serious omission on the part of the academic community (Broadbent & Guthrie, 2008). This is a fact applicable to Sri Lanka as well. Especially in developing countries there are many technical and institutional problems that the authors believe could potentially hamper the government's efforts to reform public sector accounting for improved efficiency (Harun & Kamase, 2012). Therefore, it is high time to consider the need for rich and rigorous research in the field and deploy the resources and effort needed to bring prosperity to the public sector in Sri Lanka. Prospective researchers can think of exploring the same idea through a quantitative approach and come out with generalizable findings. Further, the same phenomenon could be looked at through some other relevant theories such as Actor Network Theory. Some researches could focus on incorporation of liberal ideas in the country and their impact on national identity.

The coding and thematic analysis required the authors to interpret the data in explaining the recent developments in PSAFR in Sri Lanka. Thus, the generalizability of the findings becomes a major limitation of this study. Hence, the findings are confined to the Sri Lanka and PSAAPs reforms context. The information gathered from top management is highly sensitive. Thus, some respondents reserved their opinion. This is claimed by InA/02 as follows:

> *“Ya, ya, ya. Now off the record I will tell (Omitted)”*

Thus, the findings are subject to those reservations and omissions.

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Appendix 1: Sample

Name of the Respondant	Source	Name of the Respondant	Source
Initiating agency		**Implementing Agency (cont'd)**	
Chartered Accountant	Internals/ InA 01	Sri Lanka Accountants Service	Internals/IA 15
Chartered Accountant	Internals/ InA 02	Sri Lanka Accountants Service	Internals/IA 05
Chartered Accountant	Internals/InA 04	Sri Lanka Accountants Service	Internals/IA 16
Chartered Accountant	Internals/InA 03	Sri Lanka Accountants Service	Internals/IA 17
Implementing Agency		Sri Lanka Accountants Service	Internals/IA 06
Sri Lanka Accountants Service	Internals/ IA 08	Sri Lanka Accountants Service	Internals/IA 18
Sri Lanka Accountants Service	Internals/ IA 09	Sri Lanka Accountants Service	Internals/IA 07
Sri Lanka Accountants Service	Internals/ IA 10	Sri Lanka Accountants Service	Internals/IA 19
Sri Lanka Accountants Service	Internals/ IA 20	Sri Lanka Accountants Service	Internals/IA 01
Sri Lanka Accountants Service	Internals/ IA 04	Sri Lanka Accountants Service	Internals/IA 02
Sri Lanka Accountants Service	Internals/ IA 11	**Controlling Agency**	
Sri Lanka Accountants Service	Internals/ IA 12	Sri Lanka Accountants Service	Internals/T 01
Sri Lanka Accountants Service	Internals/IA 13	**Divorce Voice**	
Sri Lanka Accountants Service	Internals/IA 14	CIMA-Accountant	Internals/ DV 01
Sri Lanka Accountants Service	Internals/IA 03	CIMA-Accountant	Internals/ DV 02

Note: Names of the respondents are maintained private and personal to the research.