

Local Government Accounting: Hodgepodge or Harmony

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Abstract

The Sri Lanka Public Sector Accounting Standards -introduced in 2009- had not yet been implemented. Instead, the Local Governments (or Local Authorities) continue with the Wickramanayake's Accounting System –introduced in 1975- which is criticized not appropriate. Yet again, the Ministry of Provincial Councils and Local Governments has taken a step to introduce the simplest version of all the Sri Lanka Public Sector Accounting Standards called “Sri Lanka Public Sector Accounting Standards for Local Authorities.” The present study attempts to explain why Local Governments stick to Wickramanayake's Accounting System and castoff the Sri Lanka Public Sector Accounting Standards. The study adopted the qualitative methodology and case study strategy. Data for this study were gathered through semi-structured interviews in the selected cases. The study found that the continuation of Wickramanayake's Accounting System and rejection of Sri Lanka Public Sector Accounting Standards respectively are due to the existence and nonexistence of coercive pressure.

Key Words: Local Government, Sri Lanka Public Sector Accounting Standards, Wickramanayake's Accounting System, Coercive Pressure

Introduction

Public sector refers to the Government and Government owned institutions, and it provides services to the general public (Nagendrakumar, 2017). Sri Lanka is a unitary democratic republic which has comparatively a larger public sector in Asia (Iqbal, 2002) and it spreads over a wide range of sectors of the economy (Kumara & Handapanagoda, 2008). Sri Lankan Public Sector comprise three levels of governmental organizations: central governmental organisations (Central Government (CG), line ministries and departments) provincial governmental organisations (Provincial Councils (PCs), provincial ministries and departments) and local governmental organisations (Municipal Councils (MCs), Urban Councils (UCs) and Pradeshiya Sabhas (PSs)) (Nagendrakumar, 2016).

The Local Authorities are responsible for providing services which the laws (Municipal Councils Ordinance (1947), Urban Councils Ordinance (1939), and Pradeshiya Sabhas Act (1987)) specifically allow them to do. Local Authorities are expected to provide services for the comfort, convenience, and wellbeing of the community in respective geographical areas. Hence, the Local Authority carries out; regulatory and administrative functions, promote public health and sanitation, environmental sanitation, and public thoroughfares, and public utility services. Once the 13th Amendment to the constitution in 1987 was enacted, Local Governments became a devolved subject under the PCs. As a result, the powers to control and supervision of Local Authorities transferred from CG to PCs. However, powers relating to the formation, structure and national policy on local governments remained with the CG. Accordingly, the Local Governments - 23 MCs, 41 UCs, and 271 PSs - became the third and lowest level of Government in Sri Lanka. The Ministry of Provincial Councils and Local Governments is responsible for policy and legislation at the national level, while the Provincial Ministers of Local Governments are responsible for the implementation at local level. Accordingly, the Local Governments receive grants from CG and PG. In addition, they raise fund from taxes, fees, rent, and rates.

Problem Statement

The Local Governments followed the Cash based accounting in line with the other Government organizations till 1975. Then, by the gazette notification, the Local Governments have introduced the accrual based accounting which is referred to as Wickramanayake's Accounting System. The Wickramanayake's Accounting System has been criticized not appropriate to the Local Governments (Nagendrakumar, 2016). Again, during 2009 by a Treasury circular the Local Governments were introduced the Sri Lanka Public Sector Accounting Standards which are applicable to other Government organizations as well. However, it is noted that those standards are not implemented in Local Governments (Abeysinghe, and Samanthi, 2016; Nagendrakumar, 2016). Yet again, the Ministry of Provincial Councils and Local Governments has taken a step to introduce the simplest version of all the Sri Lanka Public Sector Accounting Standards called 'Sri Lanka Public Sector Accounting Standards for Local Authorities'. Thus, a dilemma exists whether the Local Government Accounting reforms lead to hodgepodge or harmony.

Methodology

The study followed the qualitative methodology and case study strategy to understand and explain the research problem. Data for this study were gathered through semi-structured interviews conducted from among the MCs, UCs, and PSs in Kurunegala and Trincomalee districts. The interviews were transcribed and then coded using the NVIVO data management system. The codes were further analyzed, and themes were found. Accordingly, themes became the base for the discussion and findings.

Significance of the Study

It is noted that the Local Governments in Sri Lanka are exposed to the accounting reforms at regular intervals. However, it is noted that they have not yet settled down with an appropriate accounting mechanism. As a result, this study explains the inevitability of the harmony in Local Government accounting environment.

Discussion and Findings

It is noted that the Wickramanayake's Accounting System and the Sri Lanka Public Sector Accounting Standards are based on accrual accounting principles (Nagendrakumar, 2016). Besides, the respondents admitted that the accrual based accounting reforms are the massive change exercise in the Government Accounting System (GAS). Provided that the unwillingness and the lethargic attitude of the Public Sector Accounting staff in accepting the reforms, the respondents argued that they positioned greater effort to make the GAS aware of the significance of the application of the accrual accounting practices in the public sector. As a result, the Government, of course somewhat, realized that not only the accrual accounting practices to be the most informative for decision making but also certain countries have already adopted the change. That motivated the Secretary of Treasury to stretch the consent to the Institute of Chartered Accountants of Sri Lanka (ICASL) in introducing the Sri Lanka Public Sector Accounting Standards (volume 1 and II). However, it is noted that the sanction for the adoption of Sri Lanka Public Sector Accounting Standards was given only to the Statutory Boards (non-commercial public corporations) and Local Governments (ICASL, 2009). Similarly, the respondents confirmed that the Local Governments, Corporations, and Statutory Boards had adopted the accrual accounting practices well before the introduction of the Sri Lanka Public Sector Accounting Standards.

Therefore, the approval of the Secretary of the Treasury to the Sri Lanka Public Sector Accounting Standards and the existence of accrual accounting practices in those organizations

stimulated the ICASL to trust that it would become easy for them to introduce the Sri Lanka Public Sector Accounting Standards in those entities. However, though these organizations have adopted the accrual accounting practices, respondents pointed out that, it has not been fully functional and further, they highlighted that the Sri Lanka Public Sector Accounting Standards are not applied so far in those organizations. More to say, the Local Governments have unconsciously institutionalized with the Wickramanayake's System of Accounting for the preparation of financial statements which is of course based on the accrual accounting principles but on limited aspects. Further, though space is available for depreciation of fixed assets under Wickramanayake's System of Accounting, it has not been followed. Bizarrely, the Local Governments provide 100% depreciation at the inception of the fixed assets which is again the violation of generally accepted accounting principles. The reason for non - provision of depreciation according to the generally accepted accounting principles is that the fixed assets management in Local Governments is very poor (Nagendrakumar, 2016). Further, it was pointed out that the Wickramanayake's System of Accounting is simply 'filling the form' prescribed and nothing involved with the 'principle based professional judgments' in presenting general purpose financial statements as expected by the Sri Lanka Public Sector Accounting Standards. Also, most of the Local Governments are not headed by the Accountants. Instead, they are headed by the Financial Assistants and Management Assistants. Hence, they argued that it is convenient for them to fill the forms as stipulated in the Wickramanayake's Accounting System and pointed out that they are not familiar with the application of accounting standards. Thus, application of Sri Lanka Public Sector Accounting Standards is not possible since the system already in practice, though it comes under accrual accounting principles and the capacity of the human resource does not suit to the present accounting reforms.

Despite the above fact, since the Sri Lanka Public Sector Accounting Standards manual supports the application of the accrual based accounting standards initially to the Statutory Boards and Local Governments and blessed with Secretary to the Treasury, the respondents positively endorsed the reforms and appreciated the move and said that it could be better to incorporate them in those institutions. The reason why they supported the Secretary to the Treasury's statement in the Sri Lanka Public Sector Accounting Standards manual was that the Local Governments had already been switched on to the accrual accounting principles. Subsequently, the Department of Public Enterprises issued circulars (PED/54/2010 and PED/POL/CIR/2013-3) in 2010 and 2013 instructing the Local Governments and Statutory Boards to prepare the final accounts based on the Sri Lanka Public Sector Accounting Standards. Then, the Ministry of Provincial Councils and Local Government also issued the circular (PAL/05/2014) in 2014 instructing the PCs to prepare the final accounts based on the Sri Lanka Public Sector Accounting Standards. However, it was noted that neither the PCs nor the Local Governments had implemented the Sri Lanka Public Sector Accounting Standards. Above and beyond, Nagendrakumar (2013) argues that the accounting system that is being followed by the PCs is not effective and Nagendrakumar (2016) argues that the accounting system that is being followed by Local Governments also is not effective.

Another important point is that the Department of Local Government follows the cash accounting practices. Though the Local Governments have adopted the accrual accounting practices, the Department of Local Government which is the ultimate controlling body of all the Local Governments in the PC setup has adopted the cash accounting practices. As a result, on the one hand, the Local Governments submit the financial statements to the Department of Local Governments based on the accrual accounting practices and the other hand, the Department of Local Governments submit the financial statements based on the cash accounting practices to the respective PC's Treasury. As a result, the respondents argued that the

accounting practices that are being adopted by the Local Governments and the PCs contradict each other and hence lead to hodgepodge.

However, the Government involvement in this endeavor commenced long after the initiation of the reforms. Further, the involvement of the Government has not been concrete. As a result, though the Treasury has issued the circulars, all the Local Governments had not adhered to the circular instructions, and they had not presented the final statements based on the Sri Lanka Public Sector Accounting Standards. The problem that the Local Governments faced in implementing the Sri Lanka Public Sector Accounting Standards was that the reforms were not legally supported. As opposed to that the Wickramanayake's System of Accounting has been supported by the Government Gazette notification.

Conclusion

The initiation of accounting reforms has not been copiously supported by the Government. The fundamental criteria for the accounting reforms in the Local Government are that 'political reform promoters' commitment (Luder, 2002) and the resultant Government's policy decision with regard to the absorption of Sri Lanka Public Sector Accounting Standards into the GAS; which has not yet happened. Thus, it is argued that the coercive pressure in implementing the Sri Lanka Public Sector Accounting Standards not existed in a Local Government environment. Instead, the coercive pressure to continue with the Wickramanayake's System of Accounting existed. Yet again, the move in implementing the Sri Lanka Public Sector Accounting Standards under the label of "simplest version" is also underway. As a result, the accounting reforms in Local Governments have become the hodgepodge and need urgent attention to harmony in a Local Government environment.

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