

# Country Specific Factors: Public Sector Accounting and Financial Reporting Reforms in Sri Lanka

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## Abstract

New Public Management led the world of the public sector - including Sri Lanka - to switch on to the accrual-based accounting which is referred to as Public Sector Accounting and Financial Reporting reforms. However, it was noted that most of such reform activities have failed. Besides, irrespective of failure recorded Sri Lanka continues with the reform process. This postures the research problem of what factor(s) forces Sri Lanka to endure the reform. As a result, this study in general attempts to hoist the factors that determine the reform and precisely attempts to elevate the country specific factors of the phenomenon in Sri Lankan context based on qualitative methodology employing semi-structured interviews. The data were analyzed using thematic analysis method. The study found that though most of the universal and country-specific factors are negatively influence the reform in Sri Lanka it is compelled to reform since 'change of country status' dictates.

**Keywords:** Country Specific Factors; Public Sector Accounting; Financial Reporting Reforms; Accrual Accounting; Sri Lanka

## 1. Introduction

New Public Management (NPM), which was initiated in the latter part of the 1970s in the world involves in the introduction and incorporation of the private sector management practices to the public sector (Buhr, 2012; Hood, 1995). Thus, NPM sets the background for New Public Financial Management (NPFM) by incorporating private sector financial management practices to the public sector (Buhr, 2012; Soverchia, 2012). One of such NPFM reforms is the injection of private sector accrual accounting practices to the public sector, which is referred to as Public Sector Accounting and Financial Reporting (PSAFR) reforms (Nagendrakumar, 2017a). As a result, NPM has become a powerful platform for PSAFR reforms including Sri Lanka (Nagendrakumar, 2017b; Abeysinghe and Samanthi, 2016).

It is observed that the implementation of the accrual accounting practices to the public entities in Sri Lanka has not been successful (Nagendrakumar, 2017b; Abeysinghe and Samanthi, 2016). Further, the like reforms are not successful in less developed countries as well (Abeysinghe and Samanthi, 2016). Besides, it is also noted that reform activities world over - in general – are not successful (Ouda; 2015; Soverchia, 2012). Many factors are attributable to this phenomenon. In that line, the universal and country-specific factors have a significant impact on the PSAFR reforms (Brusca *et al.*, 2013; Buhr, 2012). The universal factors are applicable worldwide which had already been found in the literature, whereas the country-specific factors are related to a specific country context. However, the impact of the universal and country-specific factors with respect to the PSAFR reforms in Sri Lankan context is not known.

This study therefore attempts to elevate the impact of universal factors on the PSAFR reforms, identify the country-specific factors which affect the PSAFR reforms and explore the more dictating factor of PSAFR reform in Sri Lanka.

Sri Lanka faces the rapid growth environment in economic term. However, it is observed that the accounting system in reporting the growth to the nation and the universe has been based on cash-based accounting mechanism. Besides, the Institute of Chartered Accountants of Sri Lanka (ICASL) has initiated the accrual accounting practices to the public sector. However, it was observed that the Government institutions have not yet opted for the reformed accounting

practices. This study, therefore, becomes significant since it explains the nature of compulsion in implementing the reforms initiatives introduced by ICASL.

The rest of paper is organised under the broad headings of literature review, methodology, discussion, findings, and conclusion.

## 2. Literature Review

The critique- inefficiency and ineffectiveness of public sector- resulted in public sector transformation in the 1980s and 1990s, ranging from decentralisation and privatisation to the development of goal-driven and client-oriented organisations (Osborne & Gaebler, 1992 cited in Broadbent & Guthrie, 2008). Thus, NPM led the public sector to lean towards private-sector management practices and especially, pressure has been mounting to adapt Business Like Accounting Practices<sup>1</sup> (BLAPs) in the public sector (Hood, 1995; Lapsley, 2008). This fact has been clearly evidenced in the public-sector standards released by the International Public Sector Accounting Standards Board (IPSASB) (Oulasvirta, 2010) and CA Sri Lanka (Nagendrakumar, Fonseka, & Dissanayake, 2015a). Thus, NPFM reforms became fundamental for NPM reforms where there has been considerable change in funding, governance, and accountability for control and operation of the public services and as a result, the accounting and auditing came into the spotlight for the reforms (Broadbent & Guthrie, 2008). These techniques mainly relate to the financial management of these organisations and have been labelled by Guthrie, Olson, and Humphrey (1999) and Helden (2005) as NPFM reforms.

Australia, New Zealand, and the United Kingdom have applied accrual accounting and accrual based professional accounting standards to the public sector as the major aspects of the PSAFR reforms. However, several tensions arose in the countries which engaged in PSAFR reforms since the adoption of accrual accounting practices (Buhr, 2012). Initially, in Australia, business-based accounting system was adopted, with a few modest extensions covering the public sector. However, there was much controversy over the displacement of cash accounting practices and budgeting systems by accrual accounting practices and further, the appropriateness of the Australian Accounting Standards (AAS) to the public sector (Barton, 2011). Though the PSAFR reforms are in operation in many countries, accounting for Government debt, usage of matching concept and many other unique aspects such as Government pensions, heritage assets, matching the revenue and expenses, and others have not been adequately resolved (Ouda, 2015; Oulasvirta, 2014; Wynne, 2003). Accordingly, for many countries, especially transitional and underdeveloped countries the adoption of the accruals accounting practices to the Public Entities (PEs) may not be appropriate and certainly should not be considered to be a high priority (Wynne, 2003).

The PSAFR reforms can bring many benefits regarding the quantity and the quality of services provided to the citizens of many countries across the world. However, these reforms should be approached carefully, especially aspects such as the choice of accounting practices, be decided in the context of the overall priorities of the reform process and not just by the perceived superiority of one basis of accounting over another. Therefore, Wynne (2003) argues that though the NPFM reforms have facilitated the PSAFR reforms it is not an end in itself.

Moreover, the PSAFR reforms have the potential to alter not only the way in which the public sector and its services are viewed but also the way in which it is operated. The issue of assets, particularly capital assets, can no longer be avoided, as it is an element of this NPM (Chrisiaens, 2004). Governmental capital assets are, in contrast to business enterprises, often held for other

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<sup>1</sup> When accounting practices in the private sector is brought into the public sector it is referred to as BLAPs for the public sector.

reasons than maximising the economic objectives (Chrisiaens, 2004). Many Governments are used to budgetary accounting approach, which is an authorization system in which the recording of capital assets is concentrated on authorising the acquisition, rather than on the economic value or the annual depreciation (Chrisiaens, 2004). Budgetary accounting practices are also a tradition for Governments and serve managerial goals different from those of the reformed business-like capital asset accounting practices. Even when the former budgetary system has been significantly reformed, communication problems and contradictory budgetary principles often still occur (Christiaens, 2010). It prevents PSAFR reforms from being adopted smoothly and consistently and implies many problems in respect to the recognition and valuation of those assets (Chrisiaens, 2004).

Thus, even after some years of NPFM reforms, Governments are still waiting for solutions to some unresolved questions and problems regarding capital assets (Ouda, 2015; Chrisiaens, 2004). Decisions tend to revolve around whether or not to buy new capital assets instead of managing the capital assets in hand (Buhr, 2012). Also, a failure to recognise an allocated cost of capital assets makes it more difficult to understand the on-going financial implications of maintaining a given level of service (Buhr, 2012). Thus, a lack of information on depreciation and amortisation makes it more difficult to make decisions about expanding or contracting public programs (Buhr, 2012). There are also issues on the liability side, and before the implementation of accrual accounting, many Governments were building up pension liabilities and liabilities for other social benefits that went unrecorded in the financial statements (Buhr, 2012).

In addition to the NPM led neo-liberal thinking, the financial crisis, during the latter part of the 19th century, resulted in various Governments to offer rescue packages. For example, United States of America 700 billion US dollars, Canada 40 billion Canadian dollars, France 26 billion euros, Britain 94 billion pounds and India 8 billion US dollars. It led the question of how the rescue measures presented in the governmental financial statements. Further, the sovereign debt crisis (e.g., Greece and Dubai) also resulted in questioning whether the financial reporting of Government interventions is sufficient to achieve accountability and transparency. As a result, IMF and the IPSASB jointly tried to answer the question and came out with the accrual based IPSASs (Abanyam & Angahar, 2015).

The PSAFR reforms motivates the PEs to conform in presenting their General Purpose Financial Statements (GPFSS) and budget outturn statements with International Public Sector Accounting Standards (IPSASs) (Oulasvirta, 2010). Before reforms, the presentation modes and ways were totally the matters to be decided entirely by the national Governments (Oulasvirta, 2010). The key factors (macro and micro) in the reform process have varied between countries (Grossi & Soverchia, 2011). For instance, Government 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 (Luder 2002).

### **3. Methodology**

The study is related to the recent developments in PSAFR reforms in Sri Lanka. Therefore, the collecting rich and updated data is possible from the top level financial management in the public sector. As a result, the purposive sampling method was adopted. The sample comprised three types of agencies; one was the initiators: The Institute of Chartered Accountants of Sri Lanka and the Association of Public Finance Accountants of Sri Lanka, the second was the public entities: Provincial Councils, Local Governments (LGs) and the third was the controlling agency: Treasury. Further, a typical case to ensure the rival voice was also selected: Chartered Institute of Management Accountants (CIMA) attached to the public entities. Accordingly, the data for this study was gathered through 30 semi-structured interviews. The interviews lasted

45 minutes on average. The field data were coded using the NVivo data management system and then thematic analysis was carried out (Braun and Clarke, 2006). Themes were found by familiarizing with the data set, transcribing verbatim, generating initial codes, searching for themes, reviewing the themes, and defining and naming the themes.

#### **4. Discussion**

The discussion has been based on the two themes *viz.* impact of universal factors in Sri Lankan context and country-specific factors.

##### **4.1 Impact of universal factors in Sri Lankan context**

This theme refers to whether the universal factors found in the literature have influenced the PSAFR reforms in Sri Lankan context. This theme has been analyzed using ten higher order codes and 341 codes.

###### **4.1.1 Information technology**

It was pointed out that the Government Accounting System (GAS) must have the support of well-articulated computer-assisted accounting packages. The respondents pointed out that this aspect has been the major weakness that the Sri Lankan public sector has been facing from its good olden days. Further, they highlighted that the implementation of the accrual accounting practices also had not been supported by proper accrual-based computer package in Sri Lanka. The initiators of the reform pointed out that, though the accounting departments of the public sector organizations have been already practising the Computer Integrated Government Accounting System (CIGAS), when it comes to a rendition of documents for the external audit still the accounting staffs are used to prepare them manually. Accordingly, on the one hand, the public entities send the soft copy of financial statements online through CIGAS to the Treasury, and on the other hand, they send the manually prepared identical documents to the audit. Thus, the incorporation of the CIGAS has led to the duplication of works in the public entities. Further, the CIGAS has many features of the accrual accounting practices, but the public entities had not implemented them. The reason they pointed out for non-adoption of the accrual facility available in the CIGAS to prepare the accrual-based financial statements was that it was not made mandatory by the Treasury. The Treasury confirmed that the CIGAS had been the common system for accounting in the public sector and further, they pointed out that the Treasury has initiated measures to introduce a new accounting package called Integrated Treasury Management Information System (ITMIS) that would certainly enhance the applicability of the accrual accounting practices to the public entities.

From the discussion thus far it has been evidenced that the CIGAS has been used only to prepare the subsidiary financial statements of the public entities and not the accrual-based full set of financial statements as expected. Apart from that, the important problem that the Provincial Councils (PCs) faced during the implementation of the contemporary PSAFR reforms was that the CIGAS is MS-DOS based (old version) whereas other central ministries and departments had upgraded that to windows. Therefore, they pointed out that the PCs have not upgraded the systems equally in line with the Central Government (CG).

###### **4.1.2 Political culture**

Informants recorded that the support and the commitment by the ruling political party would be an essential prerequisite for the PSAFR reforms. Similarly, Luder (2002) argues that any sorts of administrative reforms need the support from the 'political reforms promoters.' Luder's argument was that whoever may initiate the administrative reforms in the country yet those reforms may not be successful if the political reform promoters are not fully backing the change. Luder further says that the Prime Minister, the Minister of Finance and the Chief Administrative Officer (CAO) in charge of the finance (*i.e.*, Secretary of the Treasury in Sri Lankan context)

are the major political reform promoters. Other members of Parliament are also the supporters of reforms. The strong Parliament with the ability to enforce the change even against the resistance of the executive would lead the reform to succeed. In line with the argument of Luder, the initiators informed that New Zealand as an example and they pointed out that the Prime Minister was instrumental in initiating the NPFM reforms. Contrary to the New Zealand's phenomenon, in Sri Lankan context, the PSAFR reforms were first initiated by the Institute of Chartered Accountants of Sri Lanka (ICASL) consolidating the Association of Public Finance Accountants of Sri Lanka (APFASL) as its public sector arm. There was no involvement whatsoever by the political reform promoters in this connection in Sri Lanka. As a result, the initiators pointed out that they were not successful and struggling in securing the support from the political reform promoters from the most outset.

Another point to be noted is that the Public Sector Accountants tried many times to bring the change to the Public Sector Accounting in Sri Lanka. However, they could not accede since they could not secure the political reform promoters support. As a result, PSAFR reforms efforts were in wane in the last moment and even further noted that the senior Public Sector Accountants had gone up to the level of drafting the Act of Parliament but at the last minute it was washed away by the pressure groups. Treasury confirmed the above claim, and it also pointed out the failure of securing the political reform promoters support pinpointing that the Government has not made the policy decision to adopt accrual accounting practices to the public entities.

Furthermore, initiators argued that it has become a bad culture that when a new Government comes to power, they used to forget whatever the good things that are done by the previous Government completely and sometimes, they discontinue the earlier projects. This ignorance was because each Government comes out with their set of policy statements forgetting or ignoring the previous Government operations and their policies. As a result, all the Governments tend to lose the significance of having a 'state policy' for the development giving more priority for 'individual party policies.' Rival voice added more to the argument and said that Sri Lanka's political culture has been such that the politicians have been used to command the Chief Accounting Officers (CAOs) to commence certain projects but, all of a sudden, unexpectedly, in the halfway through, direct them to stop the project. For example, Government departments have been practising the CIGAS package, but again Treasury tries to introduce ITMIS package. As a result, rival voice highlighted that the Treasury would certainly have taken action to stop the application of CIGAS in the public sector organizations. As a result, the respondents upheld that why the Government has not interested in upgrading the CIGAS to suit to the present context rather than moving entirely to a new system which would save the cost and energy.

#### ***4.1.3 Role played by senior management***

Unless otherwise the top financial officers in the CG, PCs and the LGs give the important priority for the implementation of accrual accounting practices to the public entities the PSAFR reforms will not succeed. This support is significant because the top accounting officers - CAOs and Accounting Officers (AOs) in the Government - have not been very much conversant with the BLAPs. However, Luder's (2002) view is that the Public Sector Accounting staffs must be familiar with private sector accounting concepts and practices then only the implementation of private sector accounting practices could be made easy to the public entities.

Moreover, the initiators upheld that especially the old generation of Public Sector Accountants has felt the PSAFR reforms as an additional burden to their duty list. Also, the initiators brought to the light that whenever problems in accrual accounting practices arise they never had the mechanism to solve them. The senior management of the public entities also was unaware of the

PSAFR reforms, and similarly, Senior Accountants in the public entities were not familiar with the accrual accounting practices. Under these circumstances, the initiators argued that though the younger generation of Public Sector Accountants supports implementing the PSAFR reforms, the old generation purposely delays or ignores.

To cite an example, in the private sector ICASL has formed nearly 30 committees to deal with the matters about the formulation and implementation of the accounting and auditing standards. All committee members are volunteers, and they have been used to attend the committee meetings regularly, and even they are used to work after office hours. But, the APFASL which is the public sector arm of the ICASL has been struggling to set up a single committee. As a result, the initiators argued that the commitment that the public sector top management rendered in promoting the sector was highly not appreciable compared to the private sector. Accordingly, they further argued that the top management in the public sector has not perceived the real value of the PSAFR reforms and as a result, the lower level financial officers of the Government institutions also have inherited the same attitude and used to keep themselves away from the reform process.

Another problem that the PSAFR reforms encountered was that the inability of the public sector senior Accountants to think out of the box and coming out with the new innovative ideas in promoting the public sector financial reporting practices. Inability to think out of the box was because they have always been used to the traditional way of public management practices. Public entities further noted that the members of Sri Lanka Accountants Service (SLAcS) usually not interested in the teamwork because of the structural arrangements of the accounting service (analysed under country-specific factors) and as a result, the top management has not transferred the seriousness and significance of the PSAFR reforms to the bottom. Therefore, the accounting staffs - as a whole - have not committedly involved in the change process.

In addition, it was made clear by the public entities that the Sri Lanka Book Keeper Service and Sri Lanka Store Keeper Service supported the SLAcS in the past. However, the Senior Management in the public sector has abolished those Para - accounting services and further, some departments brought to the light that the senior management has abolished some of the Accountants' cadres as well. These types of decisions by the top management made the accounting system of the said departments entirely disabled. As a result, they argued that the organizational set up concerning the GAS must have to be first re-engineered then only there would be a positive environment for the change. Thus, they informed that the improved background in the GAS would certainly enable the proper and easy implementation of the PSAFR reforms in the public entities.

They further added that the top management in the Central Treasury in the general and provincial Treasury, in particular, has not placed a high priority for the PSAFR reforms. For example, Treasury has not issued the proper instructions and the guidelines concerning the implementation of the accrual accounting practices to the public entities. In some cases, Treasury has issued the circular instructions, but the contents are not clear. Most of the departments pointed out that since the ambiguities in the circular instructions they were unable to adopt the accrual accounting practices in their respective departments. As a result, they argued that improper instructions and guidelines also became another major reason for the failure in implementation of PSAFR reforms.

#### ***4.1.4 Nature and types of activities***

Though the initiators were interested in implementing the accrual accounting practices to the public entities, they admitted that the nature of the public sector differs entirely from the private sector. The motive of the public sector is to serve the general public where the private sector is to earn a profit. As a result, the public sector aims the social welfare of the people and the

development of the country whereas the private sector aims at increasing the owner's wealth. As a result, public entities argued that the implementation of accrual accounting practices will lead the financial statements to end up with the deficit (*i.e.*, loss).

The public entities highlighted that the meaning of the 'loss' in the public sector is different from that of the private sector. They pointed out that most of the private sector organizations and Government Business Enterprises (GBEs) which have adopted the Sri Lanka Accounting Standards (SLAS) in financial reporting also end up with the loss. But they never perceive the loss incurred as the benefits accrued to the general public. As a result, the continuous loss of a private sector organization would lead to the liquidation of the entire organization or discontinuation of the part of the organization. But, it would not happen in the public sector organizations. That is, even though the public sector organizations report the loss consecutively Government would not take steps to liquidate them. Instead, they would be rescued to continue the provision of service to the general public (*e.g.*, Sri Lanka Transport Board, Sri Lanka Railway, Ceylon Petroleum Corporation, Ceylon Electricity Board, and the like).

Adding more to the argument, the public entities recorded that the objective of the Government spending is to achieve the outcome of 'improvement in the societal wellbeing.' However, the Government cannot expect the outcome of the money spent within one financial year. It may take several years to realize the outcome in the public sector. As a result, the reported expenses occur in one year, and the expected outcome occurs in some other year(s). Therefore, the timing of the matching concept under accrual principle also loses its significance. Also, the outcome of the Government spending does not necessarily mean the monetary results and it may sometimes non - monetary. Then, matching loses its significance since most of the benefits accrue to the public entities are non - monetary. Of course, this is also not possible even in the private sector. Therefore, public entities pointed out that, evaluating the Government organizations and their achievements become difficult when they implement the private sector accrual accounting practices.

Further, the adoption of private sector principles would lead to the negligence of the 'service mind' of the Government staff which would be a great threat to the purpose of the existence of a Government, that is, equality and social well-being of the citizens. For example, as discussed earlier many loss-making organizations are rescued and made to continue their operation because of their social prominence. It is palpable that even though the private sector organizations usually claim that they serve the people; if the particular enterprise does not earn sufficient profit, it ends up with discontinuation. Thus, the private sector's main attitude is the profit, and the consequence attitude of loss is the closing down the business. As a result, the business attitude towards the profit would lead to negligence of service to the people in the public entities. Thus, the infusion of private sector principles would certainly lead to loss of 'service mind' in the public sector. As a result, the public entities and rival voice criticized that, the initiators have not conducted the proper and complete study, and accordingly, they have not identified clearly the differences among the two sectors before introducing the BLAPs.

#### **4.1.5 External pressure**

The Supra National Organizations (SNOs) play a major role in implanting private sector management practices in the public sector. Respondents highlighted that Sri Lanka has been mostly the member of all the SNOs and thereby it is obliged to adhere to the norms and practices adopted by them. They further brought to the light that all the SNOs have adopted the accrual accounting practices. Dissimilarly, Sri Lanka, since it has been practising the cash accounting practices, is far behind the reporting requirement compared to the SNOs reporting system. So considering that aspect, the adoption of accrual accounting practices needs to get due treatment as a significant requisite for Sri Lanka. This situation further gets aggravated when

SNOs recommend adoption of the accrual accounting practices when Sri Lanka approaches them for loans.

Apart from that, the initiators are the member of the International Federation of Accountants (IFAC). The IFAC, in turn, is backed and funded by the SNOs. As a result, initiators have been highly obliged to obey the recommendations made by the SNOs and IFAC. The initiators highlighted that the Public Sector Accounting Standard Committee established by the initiators, at the most outset, was also comprised of representatives from SNOs. Thus, the initiators admitted that the idea to incorporate the accrual accounting practices is - a borrowed idea - under the obligatory requirement from abroad.

Contrary to the all above claims, the Treasury explicitly pointed out that the external sources did not directly pressure in any manner about the adoption of accrual accounting practices to the public entities. However, the Treasury implicitly claimed that the Government has been under pressure in accepting and incorporating the modern accrual accounting practices in the public sector to improve the financial reporting in line with other countries and the international organizations.

#### **4.1.6 Self-initiatives**

Often it is said that the duties of the Government Accountants could be carried out by simply a clerk. Sometimes, the Government Accountants are referred to as the 'FR Accountants' since they are always performing their duties based on the rules stipulated in the FR. As a result, the accounting field does not consider the Government Accountants as the professionally qualified experts. Nonetheless, almost all the Accountants in the public sector felt that the above phenomenon, some or other, needed to be changed and they also should be treated as the epistemic community in the field of accounting. Though Public Sector Accountants have been discussing the professionalization of the Public Sector Accounting service for many years, the attempt failed due to several reasons as discussed earlier.

Further, they argued that even though the ICASL has taken a keen interest in the professionalization of the Public Sector Accountants, it has no official responsibility in the public sector, and rather, it is the responsibility of the Treasury to take the necessary steps to professionalize the Government Accountants. However, Government has not taken steps to professionalise the Government Accountants. That was one of the reasons for the failure of the PSAFR reforms.

Besides, it was noted that a few Public Sector Accountants enrolled for Chartered Public Accountants examination because they argued that ICASL has moved on to professionalize the Government Accountants before getting the authority to professionalize the public sector accounting practices in the country. This move by the ICASL, from the Public Sector Accountants' point of view, is a 'waste attempt.' They argued that they have already studied the accrual accounting practices in university level, but nothing was applied in the public sector accounting practices and as a result, they forgot all that they learned during the university education. Thus, they argued that first, the PSAFR reforms must have to be officially authorized by the Government then only individual-level professionalization attempt would succeed and benefiting the Accountants.

Next, the Institute of Public Finance and Development Accountancy (IPFDA) endeavoured to professionalize the Public Sector Accountants during the 1990s, but the effort failed. The rival voice brought to the light that the IPFDA was trying to get it incorporated by an Act of Parliament during the 1990s, but that attempt also failed at the last moment. The initiators and rival voice pointed out that the accrual accounting practices were felt long ago by IPFDA, but unfortunately, International Public Sector Accounting Standards (IPSASs) were not famous those days, and nobody knew about it. However, that was the period in which the adoption of

accrual accounting practices in the public sector was intensifying. Likewise, the IPSASs were slowly becoming well - known in the rest of the world. Accordingly, IPFDA tried to incorporate those accounting practices in the public sector during the 1990s, but the efforts waned. Though the IPFDA failed to secure the Parliament recognition, it was the first institution that came forward with national interest and had the idea of the professionalization of the Public Sector Accounting in the country. Accordingly, the rival voice criticised that the present attempt by the initiators is to satisfy the IFAC.

The initiators confirmed that the Public Sector Accountants already had the intention of introducing the accrual accounting practices to the public sector. Also, the public entities pointed out that it could not blindly be acceptable that the accrual accounting practices have been borrowed from abroad since it was already in operation in some part of the financial reporting system for the Sri Lankan public sector. Thus, they argued the problem is not the accrual accounting practices but whether they can understand the modern complex accounting practices such as International Financial Reporting Standards (IFRS) and IPSAS.

Therefore, respondents argued that the idea for PSAFR reforms initially bloomed within Sri Lanka though they mimic the IPSASs for SLPSASs (Nagendrakumar, et al. 2015). Further, they noted that the local idea supported the SNOs, IFAC, and ICASL in implanting the neo-liberal agenda into the island.

#### ***4.1.7 Cost of conversion***

The initiators claimed that the PSAFR reforms had involved the huge cost of converting the existing cash accounting practices to accrual accounting practices. Further, Blondal (2004) also argues that the accrual budgeting which is the pre-requisite for the BLAPs would again involve significant costs in training the staff and the computer-based system upgrades. However, the benefits that accrue would not simply worth the spending (Wynne, 2003). The initiators also argued that it is a general phenomenon that the developing countries face the difficulties in meeting the cost of conversion since they have other priorities in the policy agenda such as health, education, and the like. They further pointed out that, rather than the direct cost, the opportunity cost of introducing the PSAFR reforms to the developing country would always be high. As a result, the PSAFR reforms get delayed in those countries.

#### ***4.1.8 Accounting tradition and reformation culture***

The accounting tradition in the public sector has been rule-based. Thus, the Public Sector Accountants were expected to be accountable for the fund entrusted to them. The present attempt of PSAFR reforms has been based on the principles (*i.e.*, GAAPs). Under the rule-based tradition, the CAOs and AOs are accountable to the legislature whereas under the principle-based tradition the CAOs and AOs are expected not only to report to the legislature but also to the other users of the Governmental financial information. As a result, under the first tradition - to which Sri Lanka is used to - the GAS is more or less internal and expected to prepare the Specific Purpose Financial Statements (SPFS), but under the second tradition - to which public sector is hopefully moving - the GAS is more or less external and expected to prepare the General Purpose Financial Statements (GPFS). However, it is noted that the Government of Sri Lanka has yet not taken any policy decision to move its tradition of PSAFR from SPFS to GPFS.

#### ***4.1.9 Need for change in budgeting practices***

The implementation of PSAFR reforms requires certain basic changes to be introduced in the budgeting practices as well. The rival voice was of the opinion that the reform should start from the budgeting practices not from the accrual accounting practices. Thus, they argued this mismatch also led to the failure. The initiators, therefore, maintained that the fundamental

changes that should occur in the public sector are: Change in budgeting practices; change in recruitment practices; system upgrades; and the like. These reforms are essential because the PSAFR reforms are part of the NPFM reforms. The NPFM reforms are again one of the areas coming under the NPM reforms. Therefore, if the PSAFR reforms are to be made effective, the fundamentals of the NPFM and NPM must support the change. Therefore, since the country's public management activities are interrelated the entire NPM principles must be incorporated and incorporating a portion of the NPM such as PSAFR reforms will not stand on its own and produce the positive results to the country.

In this day and age, the Government of Sri Lanka is used to prepare a zero-based budget. As a result, the Annual Appropriation Act does not allow the public entities to carry forward the balances to the subsequent years. Accordingly, the annual financial plan of the Government is for only one year. Hence, the annual appropriation account must have to be submitted by the Government organizations without carrying forwarding any amount for the next year, because, they do not legally know the amount that is available for next year. Thus, the significant and fundamental aspect that must be made available for the accrual accounting practices is the facility of accruing the commitments for the ensuing years which could only be possible through the accrual budgeting practices.

#### ***4.1.10 Need for reflection***

Initiators argued that according to the present cash accounting system, the Government institutions are not in a position to correctly measure the cost of the service rendered to the general public. All the resources deployed in the public sector have not been reported in the financial statements because under the cash-based accounting, once the assets are acquired, they are treated as expenditure and not as assets. It was the major reason why the Government organizations are not in a position to measure their efficiency, and as a result, the country has not been in a position to measure the correct economic growth and development.

The respondents pointed out that the private sector has been more efficient than the public sector because they have a proper accounting and financial reporting system in place. It is good to notice that the Government organizations also have an accounting and financial reporting system which could only measure the amount they spent during the year, not exactly the financial position as at a point of time. As a result, the ascertaining the strength of a Government organization is very difficult. This factor leads to the question of whether the public entities prepare and present the financial statement which reflects true and fair view.

The cash accounting practices do not show the real state of affair of the Government organizations. The very important limitation is that it would not reflect the actual expenditure. At the same time, it does not properly and fairly show the assets of the organization. Further, there is no policy of tallying the assets and liabilities in the Government sector. As discussed earlier, very often financial statements show the lower financial progress than the real physical progress achieved by the institutions. Thus, the departments always face contradicting progress with respect to one and the same project. The difference is the payables not shown in the annual appropriation account. Further, the assets purchased or also constructed not shown in the annual appropriation account. These deficiencies in the financial reporting lead to inefficiencies in evaluating the public sector.

#### **4.2 Country-specific factors**

This theme refers to the local factors that influenced the PSAFR reforms in Sri Lanka in addition to the universal factors discussed above. The analysis has been carried out under the six higher order codes and 115 codes.

#### 4.2.1 Need for change in staff attitude

The initiators claimed that the staff attitude in the Government sector must have to be changed. The Government staffs always tend not to take any responsibility but to pass the responsibility over to somebody else. As a result, they are not committed to the organization and further, they do not like to accept any additional work. Vorderer (1996) as cited in Henning and Vorderer (2001) explains it as the escapism, and it is in its core, escapism means that most people have due to unsatisfying life circumstances, again and again, cause to 'leave' the reality in which they live in a cognitive and emotional way. The reasons why the Government employees escape from the responsibility are threefold. First is their job has been made permanent by the Government. Next is the reward that they get for the work they perform less compared to the private sector. The final one is the state is the sole owner of the public entities. As a result, there is no real competition and pressure for them to become more efficient and effective. Moreover, the rival voice observed that the annual performance of the employees decides the promotions and the salary increments, and they are not evaluated based on the achievements of competitive targets. Almost all the informants agreed that most of the public sector staffs are not creative and innovative, and most of the staff in the public sector come to work simply to get the salary not to meet the targets. Also, the strength of the labour unions in Sri Lanka also positively influences the escaping behaviour of the Government employees because they do not have any fear of getting fired for not meeting the targets.

Correspondingly, the escapism behaviour was apparent in the PSAFR reforms as well. Though the ICASL has taken initiatives to improve the financial reporting practices of the Government sector, the top management in the sector has not perceived its seriousness and the significance. Initiators and rival voice argued that no one core stakeholders in the public sector had taken necessary steps at least to study the suitability of the accrual accounting practices to the public entities. When the researcher raised the question about why the failure occurred in implementing the PSAFR reforms, none of the Accountants accepted it was their responsibility instead passed it over to the other levels. This phenomenon was noticed even at the Treasury level. Treasury rolled the responsibility first to the Government saying that "*Government has not taken the policy decision about it*" and next, to the lower level Accountants blaming that "*lower level accountants do not come forward with their proposals. Instead, they permanently expect the instructions from the top.*" However, it is noticeable that, the Treasury is the top executive in the financial management structure in the country and also belong to the category of 'political reform promoters.'

Another important factor which influences the attitude of Government accounting staff is the perception towards FR. The Public Sector Accountants' mind has firmly fixed on the FR. As a result, they are used to the rule-based accounting tradition. Hence, without changing the mindset of the Public Sector Accountants, it is rather difficult to move to the principle-based accounting and financial reporting practices. Therefore, the attitude towards the FR was also one of the major reasons for the failure of PSAFR reforms in the public sector.

In the Government, when something is made mandatory everyone will have to adopt them even without questioning. So in the end, the question of whether the Government staffs are satisfied or not with the change becomes insignificant since they are legally bound to adopt the changes. This compulsion again positively impacts the stress. As a result, the Government staffs are always under the web of stress. Accordingly, they pointed out that all levels involved in the PSAFR reforms must develop the positive concerns over the concept and the outcome of the PSAFR reforms to make the implementation effective.

It was noted that all happen due to the mentality that the Accountants possess. That is, all perceive that it is the public money, not their own. As a result, it is argued that the ultimate

reform needed in the public sector is the ‘reform in attitude’ without which the reforms of any sort would become meaningless. Alternatively, the reforms must be inbuilt with the ‘attitude change’ as one of the major outcomes. Despite the claims above, the rival voice recorded that the ‘attitude’ and ‘attitude change’ does not matter in public sector claiming that if anything is made mandatory, then Government staffs must follow.

#### **4.2.2 Change of country status**

Economic growth in Sri Lanka has been among the fastest in South Asia averaging 6.3 percent during the years of 2002-2013 with the gross domestic product per capita increasing from US\$859 in 2000 to US\$ 3744 in 2015 (Central Bank of Sri Lanka, 2016). As a result, the initiators claimed that Sri Lanka would be no more a developing country, but then, a lower middle - income country. Hence, they argued that Sri Lanka is not eligible to apply for grants from the foreign countries and SNOs and rather, they are entitled to apply for loans in the international money and the capital markets. Therefore, due to the change in the country’s status Sri Lanka is compelled to compete in the open international financial market for loans. Initiators and Treasury argued that the traditional mode of cash accounting practices would not support the competition of this nature. Furthermore, the initiators argued that the country status would be further improved to upper middle - income country status during next few years (2016-2020). Hence, Sri Lanka has been focusing on long-term development goals and challenges to reach the upper middle-income country status. As a result, one of the key challenges that Sri Lanka faces at present due to the status change is that the realigning the public sector spending and policies with the needs of the middle-income country status. Thus, the adoption of international best accounting and financial reporting practices become an obligation for international comparisons and credit ratings. The Treasury also confirmed the above claim and pointed out that the incorporation of accrual accounting practices has become a must in coping up with the new environment.

#### **4.2.3 Need for change in government recruitment practices**

The initiators were of the view that the major problem in implementing the PSAFR reforms was the non - availability of qualified Accountants in the public sector. The public entities also maintained that the Government’s pattern of recruitment must also change to suit the latest developments in the field of Public Sector Accounting. Further, they pointed out that the existing recruitment practices are suitable only for the traditional accounting system (Gazette, 2010). The rival voice also confirmed that the present recruitment practices do not necessarily mean to select ‘accounting professionals’ to the SLAcS. Further, they argued that a person who has the part qualification in the professional accounting programmes could also become the Government Accountants (*e.g.*, intermediate qualification in the ICASL examination). Further, they admitted that it would be much more sufficient to handle the traditional accounting practices, but they cautioned that it is not sufficient to handle the new change. As a result, the rival voice argued that the Government must change the whole system of recruitment practices, then only, there would be a match among the PSAFR reforms and then and then only, the accrual accounting practices would be effectively implemented in the country.

It was also noted that the discontinuation of the Para - accounting services compelled the GAS to operate with management assistants recruited from all the streams in A/L Education (Maths, BioScience, Commerce, and Arts). Accountants argued that the accounting work in the GAS does not have any relationship with the recruitment of the management assistants. One advantage of having the management assistants from the commerce stream is that they know the basics of accounting, but for others, it was vice versa. Thus, the management assistants from the other streams found it very difficult to understand the accounting terms, posting the transactions, and accounting workflows. As a result, all the management assistants needed the training in

PSAFR. They were given on the job training to familiarise them with the GAS. The public entities pointed out that, in general, the respective Accountants of the departments are the trainers who voluntarily train them. However, when they become fully conversant in the GAS, they get their annual transfer. The annual transfer also has not been made systematically, and as a result, the staffs from an accounting section get transferred to non - accounting section. Then, the Accountants happened to train again the new management assistants transferred newly to the accounting division. Therefore, the respondents argued that they always lose their time in training the staff rather than concentrating on other developments works of the department such as PSAFR reforms.

#### **4.2.4 Globalization effect**

Globalization is simply the integration of the people, Governments, and institutions of different countries. Globalization has, in general, created opportunities and insecurities as well. In that direction, it has, on the one hand, created the opportunity of upgrading the Public Sector Accounting system globally comparable and on the other hand, it has created the insecurity and threatening to the traditional cash accounting system and the traditional Public Sector Accountants. Further, the informants argued that the accounting profession itself is not the local phenomenon, but then, it is the global phenomenon. Thus, the accounting profession and the practices need to be in line with the international best practices.

Since Sri Lanka: is an open economy; is a member of many SNOs; has been recognized as the lower middle - income country; and has been networking with several international institutions (e.g., stock markets), it is highly prone to the international environment. Thus, the implementation of the accrual accounting practices becomes a must to accompany the networking protocols globally.

#### **4.2.5 Need for lower level support**

It is the supervisory level Accountants who work at the ground level in making the reforms a success, and accordingly, they are expected to play five important roles in PSAFR reforms *viz.* communicator, advocate, coach, liaison, and resistance manager. If the PSAFR reforms to be materialized in public entities in Sri Lanka then, the middle and the lower level staff must actively engage in the change process. However, it is noticeable that the supervisory level Accountants in the public entity have not been properly educated to supervise effectively the accounting staff coming under their purview. In contrast, Treasury criticized that the lower level staffs have not proposed new ideas concerning the implementation of the PSAFR reforms, and they had not come out with the suggestions when they encountered the problems about the accrual accounting practices. Treasury argued that this was the major drawback in the country in implementing any sorts of reforms.

Further, the lower level Accountants are trained to maintain the records of the cash accounting practices. It is worthy to note the problems faced by the Accountants in turning the system to accrual depends on the recruitment and transfer practices of the Government. That also plays a major role in creating the lower level support for the PSAFR reforms. As a result, the support that the Accountants get from the lower level accounting staff in introducing the new system is less and sometimes; some staffs go against the Accountants who try to introduce the new system in the department.

#### **4.2.6 Structure of the accounting service**

The Sri Lanka Administrative Service upholds superior administrative positions in the public entities *viz.* CAOs and AOs. They are responsible not only for the administrative function but also for the financial operations of the public entities and as a result, they are the officers who are accountable for the final outcomes. Thus, Accountants argued that they are 'nowhere' in the

administrative structure, and they are only the staff officers who are expected to assist the CAOs and AOs. In that direction, the Accountants argued that it was the CAOs and AOs who are the responsible officers in implementing the PSAFR reforms. Often, the CAOs and AOs are non-finance experts. They do not understand the subject matter, and as a result, there was no adequate support from the administrative officers, and hence they were reluctant to go for the reforms. The public entities also agreed with the stand of the initiators and added that CAOs and AOs always will have contradicting views on the works norms of the Accountants. They, further, argued that this sort of conflicts has been inevitable in the system since of the structural arrangements of the accounting service in the country.

There are twelve 'all islands public services' in Sri Lanka (Gazette, 2011). All are relatively equally scaled. However, the Sri Lanka Administrative Service gets the prominent role in the Government administrative mechanism. As a result, all other services - especially the Accountants - feel that they are second to them and tend not to participate even in the social activities of the organisation. The informants argued that it is unethical to delegate the financial authority to the CAOs and AOs while delegating the responsibility of managing the finance to the Accountants. Hence, often the Accountants are always under stress; whether to work according to the FR or according to the CAOs/ AOs unethical instructions. Thus, the Accountants argued that there has always been a barricade for the independent work of the GAS, and thus, the conflict has become the common phenomenon between Sri Lanka Administrative Service and SLAcS. Thus, both tend not to support each other. It has been made clear that Accountants are not the decision-makers in the GAS. Therefore, all the reforms related to accounting and finance depends on the decisions of the CAOs and AOs who belong to Sri Lanka Administration Service. Thus, the Accountants argued that SLAcS have to be made fully authoritative and responsible for accounting and financial matters if the PSAFR reforms to become successful.

## 5. Findings

The study found that the universal factors have the impact on the PSAFR reforms in Sri Lankan context. The study also found that there are six country-specific factors that have influenced the PSAFR reforms in Sri Lanka.

Seven out of ten universal factors and four out of the six country-specific factors are negatively associated with the PSAFR reforms. Accordingly, five out of sixteen had positively influenced the PSAFR reforms. However, it was also found that the magnitude of the pressure by the positively associated factors had played differently as far as the PSAFR reforms in Sri Lankan context are concerned (*e.g.*, change in country status). In other words, the positive interaction of the five factors has not exerted the acceptable level of pressure to Sri Lankan Government.

The change in country status is expected to achieve the upper middle-income country status in 2020. The economic impact of this change is that Sri Lanka is no more entitled to the grant from WB, IMF, ADB, etc. (external pressure) and therefore, it needs to go to the international financial and money market and compete for the short and the long-term capital requirements (Globalization effect). The present-day system of PSAFR in Sri Lanka does not match with the international standards of financial reporting (need for reflection). Therefore, Sri Lanka is compelled to benchmark the international best accounting practices (Globalization effect). Also, the need for modernization of the PSAFR emerged during the 1960s in Sri Lanka (self-initiatives) but it never led Sri Lanka to compete in the global market for its funding requirements.

## 6. Conclusion

Most of the factors have negatively impacted on PSAFR reforms in Sri Lanka. However, three universal factors and two country-specific factors have a positive impact on the PSAFR reforms.

Importantly, the change in country status has become the dictating factor for PSAFR reforms in Sri Lanka. However, it was also found that Sri Lanka has not yet realised the significance of the dictating factor and therefore, has not given prominence to the change. Thus, though Sri Lanka has not breath the graveness of the change in country status and the resultant economic coupled with the PSAFR impact, it would be compelled to realize very soon.

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