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

Univ.-Prof. Dr. Nagalingam Nagendrakumar

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[1] (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

[1] 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, Briton 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 341codes.

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 what so ever by the political reforms 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