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Determinants of public sector accounting reforms: A case study of Sri Lanka in rapidly developing Asia

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Determinants of the public sector accounting reforms: A case study of Sri Lanka in the fast developing Asia

Abstract

Purpose

The purpose of this paper is to extend the New Public Financial Management (NPFM) concept and contingency model approach to analyse the determinants of the accrual based international public sector accounting standards (IPSAS) adoption process as a financial management reform in Sri Lanka as a developing country in Asia.

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Design/methodology/approach

Based on the prior literature, this paper develops a framework to highlight the importance of accrual-based reforms and changes in the area of public sector accounting policies for better transparency and accountability. It shows the extent to which Sri Lankan public sector institutions have adopted IPSAS based accounting standards and the limitations of adopting these standards in a developing country using documentary analysis.

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Findings

The public sector in developing countries faces practical problems in adopting reforms due to limited institutional capacity, high political involvements, and bureaucracy in decision-making. The article concludes that, significant policy changes towards adoption of international accounting standards took momentum during the last decade in Sri Lanka—while the much larger economies in Asia are still in the phase of studying about the process. However ~~but prevailing continued~~ political uncertainty in the country negatively impacted the implementation process.

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Originality/value

Relatively little is known about the diffusion and the difficulties in implementing accrual-based IPSAS in the Asian region. This article is an attempt to fill this gap by exploring the Sri Lankan experience that could be applied by other developing countries in Asia including the high growth nations for policy adoption and accounting harmonisation.

Keywords: Public sector, policy reforms, IPSAS, NPFM, Sri Lanka, Asia, Developing Country

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Determinants of the public sector accounting reforms: A case study of Sri Lanka in the fast developing Asia

1. Introduction

The international trend towards modernizing the financial information systems to adopt sound financial management and accountability systems is likely to continue throughout the world irrespective of social economic differences. The stimulus in this evolution has been highly influenced by the involvement of international organizations such as OECD, NATO, United Nations, [World Bank](#), International Monetary Fund (IMF) and the European Commission (Adhikari, Kuruppu, & Mellemvik, 2009; Grossi & Soverchia, 2011, Lokuwaduge 2016, Senerath Yapa & Ukwatta 2015). This move was mainly initiated by the accounting professional organizations such as International Public Sector Accounting Standards Board (IPASB) and the International Organization of Supreme Audit Institutions (INTOSAI, 2005). Adoption of international public sector accounting standards (IPSAS) for better accountability and transparency has been identified as an application of New Public Financial Management (NPFM) as a ~~post~~ New Public Management (NPM) ~~initiative. This mainly focuses on~~ ~~with a focus on~~ ~~reforming~~ ~~the the public sector accounting and financial management systems, reform initiative in accounting practices,~~ especially among developed countries during the last two decades ([Ter Bogt & Van Helden, 2005](#); ~~Van Helden, 2005~~; Lapsley, 2009)

According to Lüder (1992), the aim of the public sector accounting reforms is to transform the government accounting systems into more informative, transparent and accountable, to provide greater utility to its stakeholders. ~~International Federation of~~

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Accountants (IFAC), through its Public Sector Committee, published IPSAS, to provide an international regulatory framework, and to facilitate convergence between international and national standards, thus improving the quality and standardization of financial information worldwide" Araya-Leandro et al. (2016, p.91). ~~while~~ Ouda (2004) and Caba, López, & Ortiz (2009) describe the introduction of accrual-based IPSAS as a radical innovation of government accounting and reporting systems.

Even though the rResearch on adoption of IPSAS for better transparency in developing country context -has grown during the last two decades (Adhikari, et al., ~~2009~~2013; Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2009; Senerath Yapa & Ukwatta, 2015; Lokuwaduge, 2016), little is known about the diffusion and the difficulties in implimenting accrual based IPSAS in the Asian region. The aims of this study is to identify the determinants of the public sector accounting policy reform introduced globally in light of NPFM and the adoption of accrual based accounting systems derived from ~~International Public Sector Accounting Standards (IPSAS)~~, giving special reference to Sri Lanka as a developing country in Asia.

The contribution of this study is two fold. It mainly contributes to the limited studies in adoption of accrual basis IPSAS and the limitations of the implimentation process of accounting reforms in developing countries in Asia, Sri Lanka in particular. It then provides a comprehensive description of different theoretical lences to analyse the IPSAS adoption process as an NPFM reform initiative to understand the determinaent factors of the reform process which also adds value to the next phase of the reform. Next section provides a description of the theoretical analysis of the NPFM and the conceptualisation of accrual based IPSAS. Third part of the paper discusses

the reserch context and then moves to research method-,_dicussion-, findings, finally
the conclusion and the directions for future ~~reserach~~[research](#).-

2. Theoretical Framework

2.1 Conceptualisation of NPFM of NPFM

Basic principles of the NPFM derived mainly from economic theories and management theories, which covers the competition in public service delivery systems, private like management functions and structures of the government institutions to focus on performance. Hood (1991, p.1) linked public sector reforms with four 'megatrends', namely: "overt public spending and staffing, privatization and quasi-privatization of core government institutions, automation of public service delivery and the development of a more international agenda". Gruening (2001) observed that the concepts such as privatisation, competition and decentralisation come from public-choice theory, the neo-classic thought and its followers of rational public management thought. The reform ideas for financial management and performance auditing can also be traced back to this same rationality (Adhikari & Mellemvik, 2010; Senarath Yapa & Ukwatte, 2015). NPM that used transplants from the private sector is considered as a transition from bureaucratic to rational management style (Lapsley, 2009 ;_Adhikari & Mellemvik, 2010), with a particular stress on rational public management. Social policy research theories could be classified as micro level theories such as legitimacy theory and institutional theory. Of these systems theories, institutional theory (Adhikari & Mellemvik, 2010) or New Institutional Sociology (NIS) (DiMaggio & Powell, 1983) has been increasingly used to examine public sector accounting (Ezzamel, Robson, Stapleton, & McLean, 2007).

~~Institutional theory argues that organizations endeavour to adopt prevailing social norms, systems, practices and structures 'that are assumed legitimate in society' (Adhikari & Mellemvik, 2010, p. 4).~~ Introduction of Accrual Basis IPSAS replacing traditional cash basis accounting systems in the public sector (Lapsley, 2009) is believe to be one of the most important NPFM measures as it "provides more

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and accurate information about government solvency, patrimonial goods and the costs of public services" (Pina & Torres, 2003, p. 335).

2.2 Conceptualisation of ~~—~~Accrual Basis IPSAS

Thomas (2002) finds that lack of coherent theory can be a problematic, and for financial accounting and ~~reporting, the~~reporting, the issue is even acute as no single theoretical lens will either explain or satisfy all aspects of subject matter constantly undergoing change or renewal, despite some attempts through primary standard setting process (Hines, 1991).

According to ~~—~~Araya-Leandro et al., (2016) ~~—~~contingency Model designed by Lüder (1992, 2002) based on the organisational contingency theory is the most suitable in analysing the determinants of the ~~—~~adoption processes of IPSAS. Contingency theory use both the external and internal contextual factors as contingent variables to examine the need for change and innovation (Araya-Leandro et al. 2016). Researchers (Baird 2007; Kattan & Pike, 2007; Lüder 1992) ~~—~~used contingency theory to analyse the policy reforms and change process found contingent variables such as organization's environment, organisational structure and technological strength as internal contingent variables while Araya-Leandro et al. (2016) used country's social, political and administrative environment as the internal environmental factors. Haldma & Laats, (~~2002~~(2002)) ~~—~~Lüder ~~—~~(1992) found the market pressure, new technology, political and legitimacy pressures as external ~~environmental factors~~environmental factors (Nobes and Parker,~~2008,~~2008).

Pina and Torres (2003) and Benito, Brusca, & Montesinos (2007) have demonstrated that the development of national accounting systems tend to be a function of different environmental factors. Nobes and Parker (2008) confirm this view

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and identify these environmental factors such as legal systems, sources of external finance, taxation systems, representation by professional accounting bodies, historical inflation, economic and political events that are important in explaining international differences in accounting related practices. Araya-Leandro et al., (2016 pp 96) used contingency model to analyse the adoption of IPSAS in South American region and explained the suitability of “ Contingency Model... to determine the principal environmental aspects influencing the introduction of reforms, and to analyse the actions carried out in this respect”. Hence contingency model provides an integrative framework to analyse the internal and external factors that can be barriers or facilitators of the accounting policy reform in the developing country context (Upping & Oliver, 2011). According to Abushamsieh et al., (2013) existence of at least one stimulus, strong political competition, accounting staff training, open to change administrative culture, absence of implementation barriers and the users who demand

Using the Contingency model of Lüder (1992, 2002) and the view of Nobes and Parker (2008), this study illustrates the determinants of the adoption process of accrual based IPSAS as a NPFM measure in Sri Lanka as a fast developing Asian country. This is done by identifying the stimuli, reform drivers, political reform promoters and institutional arrangements as adoption concept impact factors and reform strategy and the outcome stage as implementation phase (Lüder 2002). The Contingency Model provides the theoretical base needed to determine the principal environmental aspects (Abushamsieh et al., 2013) influencing the introduction of IPSAS (Araya-Leandro et al., 2016) as an accounting policy reform (Upping & Oliver, 2011) and to analyse the trail of actions carried out in this respect. Thus, this model facilitates to establish the contextual elements that should be considered by the public sector authorities/manager in implementation of IPSAS as the next phase of

accounting policy ~~innovation. This~~[innovation. This](#) model provides a very strong analytical frame work as it differentiate between the innovative reform adoption process and implementation as two different stages.

3. Research context

This study attempts to gather evidence and analyse the adoption of accrual based accounting practices as a NPFM reform in Sri Lanka, to understand the influence of institutions, accounting policies and change processes associated with the accrual-based accounting practices within the context of public sector organizations in the developing countries in Asia. Sri Lanka has [been](#) chosen as the research context due to its country profile and the identified pattern of continuity and changes in accounting and budgeting reforms.

Sri Lanka is an island located on the fast-developing South-Asian sub-continent. According to Central Bank of Sri Lanka statistics, the country's population is 21.44 million while the GDP ~~of is~~ US \$ 87.4 billion with the growth rate of 3.3 in 2017 (Central Bank of Sri Lanka, 2018). ~~Growth rate was -which was~~ 9.1% in 2012 and reported to be the highest growth rate in the region (World Bank, 2013). Sri Lanka is largely depending on international aids and loans for development activities mainly due to the ethnic and political conflicts experienced by the country for three decades up to 2009 which resulted in high foreign debts (Adhikari et al., [2013](#); Hopper et al., 2009; Senerath Yapa & Ukwatta, 2015; Lokuwaduge, 2016).

Due to the high dependency on international funding and other resources, developing countries including Sri Lanka is under pressure from international organizations, such as the World Bank, IMF and the ADB for public sector financial management reforms for better accountability and ~~transparency~~ [transparency](#) (Adhikari et al., [2013](#),

[Kuruppu, & Matilal, 2013](#); Chan, 2006; Senerath Yapa & Ukwatta, 2015). Sri Lanka is going through a financial crisis due to high government debts which contingency model (Araya-Leandro et al., 2016; Lüder, 2002) highlight as a strong stimuli for Accounting policy reform_ ~~and a~~ According to World Bank (2016), the ongoing political uncertainty of the country contributes to elevated financial risk and negative outlook of the financial and economic stability of the country while the GDP growth which contributes to the growth went down from 8.4 in 2011 to 4.8 in 2015. According to World Bank (2016, p.1)

... a major political transition contributed to elevate the risks stemming from global context...leaving the country with higher public debt, lower external buffers and rising core inflation. Citing growing external and fiscal vulnerabilities ...downgraded Sri Lanka's long-term rating by one notch to B+ from BB- with a negative outlook while S&P kept Sri Lanka's long term sovereign credit rating at B+, but changed the outlook to negative from stable.

It is well worth exploring the adoption process of accrual based IPSAS in Sri Lanka as it represents the group of countries in fast developing Asia that is highly dependenting on donations and financial support from international agencies. Findingss of the study could contribute to support the stagnating next phase of accrual based IPSAS implementation in Sri Lanka.

4. Research Methodology

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Using qualitative approach, this study employs the case study method and documentary analysis to gather empirical evidence using the archived documents, circulars of the Ministry of planning and finance, the State accounts department (SAD) and the Chartered accountants of Sri Lanka. In addition, the reports published by international organizations, particularly the World Bank, [International Monetary Fund](#), [IME](#), the International public sector accounting standards board and the International federation of accountants are used.

According to Yin (2003), case study approach provides the researcher the flexibility of using a wide variety of data collection techniques and documentary analysis is one of them. ~~Van Helden (2005) uses documentary analysis to analyse the public sector accounting reform using two data sources: formal reports and documents and explains, "The most important research methods are case and field studies... The use of case and field studies implies that research is predominantly qualitatively oriented. Quantitative research, in which hypotheses are tested using statistical methods, is clearly not mainstream..." (Van Helden, 2005, p. 111).~~ Hopper et al., (2009) argued that using the research instruments derived from developed countries do not provide reliable outcomes in developing countries specifically in the Asian region due to their distinctive differences. Most of the developing country accounting research (Uddin & Tsamenyi, 2005; Senerath Yapa & Ukwatta, 2015; Lokuwaduge, 2016) used case studies to gather data for their studies in public sector accounting reforms.

5. Discussion: Adoption of Accrual based IPSAS

5.1 Accrual Based IPSAS as a NPFM Reform:

Adoption of Accrual based IPSAS –as a measure of effective use of public sector resources and transparency of financial information systems in the public sector became the global agenda, ~~shares the similar characteristics~~ which researchers (Adhikari et al., 2013; Guthrie et al., 1999) identified as NPFM reforms. Adhikari et al., (2013) and Guthrie et al., (1999) identified these characteristics as NPFM reform. Transformation of public sector accounting system from cash to accrual based financial reporting systems by introducing accrual based IPSAS is believed to be the most debated NPFM reform during the last two decades (Guthrie et al., 2003).

The inability of cash-based accounting system to address the need for transparency in government's financial position was challenged by the Sri Lankan authorities which gave rise to the discussion (Adhikari et al., 2013) of adopting accrual based IPSAS. This move was highly recommended and supported by the international organizations (Senerath Yapa & Ukwatte, 2015) such as World Bank and IMF and the support and the guidance of these international consultancies and funding bodies created a conducive environment for accounting reforms in the public sector in the new millennium (Adhikari et al., 2013) which Lüder's (2002) framework identifies as stimulus for change. According to Senerath Yapa & Ukwatte (2015) the Sri Lankan central government agencies have been preparing their annual accounts in accordance with the cash based IPSAS since 2002. World Bank (2007) confirms that the financial statements prepared by the SAD for the year 2002 are consistent with the requirements of Cash Basis IPSAS to a large extent and Sri Lanka ~~appeares~~appears to be a role model in South Asia in this process. Further they recommend other

countries to learn from Sri Lankan experience while executing the IPSAS project. Incorporation of the additional accrual disclosures in the financial statements of the public sector reporting should consider as the first step of the central government commitment towards adopting the accrual-basis IPSASs for public sector accounting in Sri Lanka (World Bank 2007).

The main expectation of the NPFM reforms are to introduce systems to remedy the inefficient use of public resources including public finance. The expectation of the accrual based IPSAS as an accounting reforms is to enhance the quality of public sector delivery by allocation and efficient use of strategic resources, improved financial performance criteria and broadening the value of the accounts, which leads to better transparency and accountability.

5.2 Accrual Based IPSAS: Contingency Model Approach

In 2009 International public sector accounting standards board (IPSAB) as the public sector wing of International Federation of Accountants (IFAC), introduced the accrual based IPSAS and presented a policy paper to emphasise the importance of this move. This policy paper (IFAC, 2012) explains the sovereign debt crisis particularly in the European Union (EU) and related government debt issues and points out how ~~these~~ these issues became a major concern among investors and regulators around the world which was one of the main stimuli of moving from cash based IPSAS to accrual based IPSAS. IFAC (2012) also describes the lack of transparency and accountability of public sector financial reporting and the poor public finance & fiscal management practices as a contributing factor in this situation.

5.2.1 Reform Process- Adoption of accrual based IPSAS

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Accrual accounting considered to be the best system, which allows for “government assets and liabilities including government debt to be appropriately recorded, reported, and disclosed—and hence effectively monitored” (IFAC, 2012 p. 1). This report highly recommends the government authorities around the world to make this move by implementing accrual basis IPSASs to establish trust between the government and its stakeholders, its constituents and protect the investors by appropriately recording, reporting, disclosing and effectively monitoring their investments which contingency model (Abushamsieh et al., 2013) describes as reform stimuli.

It is the decision of the legislator or the standard setter to prescribe a specific set of standards and to set time lines for the adoption process. According to Di Maggio and Powell (1983), the adaptation process is stronger when the organisation depends on external resources and, at the same time, has some certainty on their own goals. This is the case in Sri Lanka as the country is required to meet conditions and follow guidelines set by the funding agencies, which is the “Reform Driver” (Lüder 1992) that determines the IPSAS adoption. Some scholars consider institutional factors (Adhikari et al., 2009), while others give more relevance to behaviour and culture as essential factors (Nobes and Parker 2008).

International Federation of Accountants (IFAC) is the global accountancy professional organisation with members and associates in 127 countries including Sri Lanka. Sri Lankan government authorities recognised the need of adopting accrual-based IPSAS and initiated the public sector accounting reforms in 2009. With the emphasis of the external environmental pressure of the reform drivers (Nobes & Parker 2008; Lüder 1992; Abushamsieh et al., 2013), the main accounting professional body, Institute of Chartered Accountants of Sri Lanka (ICASL), appointed

a Public Sector Accounting Standards Committee in collaboration with the Sri Lankan government to prepare suitable accrual based accounting standards for the use of Sri Lankan public sector.

As a result of the above committee decision, the first version of the Sri Lankan Public Sector Accounting Standards (SLPSAS) consisted of five standards, in line with IPSASs, that was introduced in 2009. The second volume of accrual bases SLPSAS was published in the year 2012 and secretary to the treasury P.B. Jayasundara confirms the move from cashed based to accrual based would provide a reporting framework in compliance with international best practice which implies the matter of gaining 'legitimacy' and his commitment for institutional arrangement (The Institute of Chartered Accountants of Sri Lanka, 2012, p.1). ~~which b~~Both the institutional theory and contingency theory recognised this as the main driver for the reform concept. ~~However, even though~~ Although the IPSAS have been developed further since 2012, Sri Lanka is still in the process of implimenting those first two volumes of SLPSAS.

——According to PB Jayasundara:— “Government Departments, Ministries and Provincial Councils could apply these standards once they make institutional arrangements to move to the accrual based accounting system (The Institute of Chartered Accountants of Sri Lanka, 2012, p. iv), while State Accounts Department (SAD) confirms the move and recognises 2014 as the pilot year (SAD, 2013b) . SAD (2013c, p. 1) also emphasised that accrual basis will “facilitate the allocation and the use of strategic resources of the central government ministries and departments in an efficient manner.”

The investors and other stakeholders expect the private like public sector measures for better accountability and transparency which NPFM and contingency theory (Lüder 2002, 1992) identify as the reform driver generated through external

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stakeholder pressure. International professional accounting bodies as professional advocates and funding agencies as legitimate stakeholders, pressure the governments around the world to make necessary institutional arrangements to adopt accrual based IPSAS for better transparency and accountability. According to IFAC policy paper 4 in 2012:

.... it is important that governments provide accurate and complete information on expenditures and transactions... given the prominence of banks and private sector investors that hold government debt, there is strong demand for the same level of financial transparency and accountability from the public sector as is expected from the private sector (International Federation of Accountants 2012, p. 1).

Given the prominence of banks and private sector investors that hold government debt, especially government bonds, there is a strong demand for the same level of financial transparency and accountability from the public sector as is expected from the private sector (Lokuwaduge, 2016).

ICASL as a member of the IFAC is obliged to adhere to the policies and procedures of the principal organisation and committed to the IFAC mission of developing public sector accounting standards for better transparency. ICASL is the main professional accounting body in Sri Lanka that was under pressure from IFAC to take a leading role in “developing and promoting the idea of accrual based accounting practices in the public sector” (The Institute of Chartered Accountants of Sri Lanka, 2009, p. 2). Contingency theory identifies these obligations as reform drivers (Lüder 2002, 1992).

5.2.2 Implementation of Reform- Implementation of Accrual based IPSAS

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The director general of the SAD issued another circular to the secretaries of the ministries and state departments regarding the accrual based accounting [implementation](#) process on the 24th June 2013 which states “as a part of migrating path to accrual accounting in the public sector, it is hereby requested to make necessary arrangements to prepare the financial statements including the balance sheet...pertaining to your Ministry/Department from 2014 onwards.” (SAD, 2013b, p. 1) which shows the time line of the implementation of accrual accounting reforms in the central government agencies confirming the contingency theory argument (Nobes & Parker 2008; Lüder 1992; Abushamsieh et al., 2013). It explains the importance of institutional arrangements such as legal system, state and administrative structures, functional body and administrative culture for the implementation process. Even though the Sri Lankan legal system and administrative structures have the capacity to move forward, the political involvements in appointing members for functional bodies and the politicised administrative culture, negatively impacted the implementation process. [According to Adhikari et al., \(2019, p. 2\) “... public sector accounting reforms in ... Sri Lanka at the implementation phase, including the bundling process, pro-innovation biases, informal and interpersonal networks, a boundary-spanning process, organisational communication, power disparity, and dominance. As a result, public sector accounting reforms have resulted in resistance, internal conflicts and unintended consequences, including the fabrication of results ...without any evidence of yielding better results for public sector governance and accountability”.](#)

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IPSAS exposure draft 53.*First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (IPSASB, 2013) understands the

difficulty in adopting new practices specifically in the developing countries due to their capacity and deficiency of resources. It acknowledges the fact that first time adoption of accrual based and transition from cash based to accrual based “is a complex issue that often requires detailed guidance. The objective of this Exposure Draft is to provide a comprehensive set of principles that provide relief to entities that adopt the accrual basis International Public Sector Accounting Standards (IPSASs) for the first time.” (IPSASB, 2013, p. 3).

According to Chan (2006) adoption of IPSAS in developing countries is problematic as these reforms often requires a large investment in educating and training but this is not always possible in countries where governments have limited resources. However this should not be an issue in the Sri Lankan context as most of the public sector officials and accountants have at least a Bachelor degree or have the opportunity for higher education, attending international training and workshops. Being a former British colony, accounting profession was highly influenced by British systems and Sri Lankan officials had exposure to the accounting reforms ~~even in as early years~~ as 1950s and 60s such as zero based budgeting (ZBB) (Adhikari et al., 2013). The World Bank (2007, p. 18) endorsed this fact: “Government accountants are recruited on the basis of the results of a competitive examination for which a university degree in accounting or equivalent is required. This qualification provides a solid basis for an effective accounting service”.— Nevertheless, the Association of Public Finance Accountants of Sri Lanka (APFASL), which was established as the public sector wing of the Institute of Chartered Accountants of Sri Lanka conducted many training programs for public sector accounting professionals in the year 2012 to make this move a success. Moreover, MOFP —made provisions for new training facilities to enhance the skill base of the existing public accountants to provide required technical

support (Lokuwaduge, 2016) and world Bank –instigated most of these major technology enhancement projects (World Bank, 2007).

Secretary to the SAD issued a circular regarding the implementation of ~~SLPSAS~~, SLPSAS, which emphasised the importance of the process, but at the same time they acknowledged the difficulties in adopting the project while advising the ministries to prepare “Appropriation Account” for the year 2014 on cash basis and all ministries and departments should take action to prepare accounts on accrual basis. “In case some Ministries and Departments do not possess all necessary information ...they are hereby instructed to prepare accounts on Accrual Basis with the information they already possess” (State Accounts Department (SAD), 2013a, p. 1)

Sri Lanka is experiencing a very high foreign debt level which in turn requires the Sri Lankan government to accept conditions of the international agencies and funding bodies. Due to these conditions, Sri Lankan cabinet approved a multi year plan to implement IPSAS (IMF 2019).

Using the contingency model of Lüder (2002), Table 1 summarises the contextual variables impacting the different stages of the IPSAS adoption process in Sri Lanka.

Table 1: Analysis: Determinants of the Adoption of Accrual Based IPSAS in Sri Lanka Using the Contingency Model (Lüder 2002)

	Contextual Variables	Contingency Model – Lüder 2002	Sri Lankan context
Reform Process- Adoption process of accrued IPSAS	Stimuli	<ul style="list-style-type: none"> Financial /economic crisis Financial scandals Prevailing doctrine Demand for public sector reform 	<ul style="list-style-type: none"> Economic downturn / High foreign debt Inefficiency of public sector delivery structures/ NPFM reform move Demand to adopt accrual based IPSAS by the international agencies including funding bodies for better transparency and accountability as IMF, World Bank and ADB play as a major stimuli
	Reform Drivers	<ul style="list-style-type: none"> Government Commissions Professional associations Audit institutions Standard acting bodies Consultancy firms Scholarly networks 	<ul style="list-style-type: none"> INTOSAI/ IFAC/IPASB/SLPB ACCA, ICASL Mahinda Chinthana: vision for the country ,ten year reform agenda from 2006-2016
	Political reform promoters	<ul style="list-style-type: none"> Member of government Member of parliament 	<ul style="list-style-type: none"> President Cabinet ministers Members of parliament- By the year 2012 10 IPSAS were introduced but change of the power to coalition government negatively impacted the progress.
	Institutional arrangements	<ul style="list-style-type: none"> Legal system State structure Administrative structure Functional body administrative culture 	<ul style="list-style-type: none"> Legal system is ready State structure is ready Administrative structure is ready and received required education and training to adopt the change Functional body administrative culture is highly influenced by the political bureaucracy of the country
Reform Concept- Adoption of Accrued based IPSAS			
Implementation of Reform- Application of Accrued based IPSAS	Implementation strategy	<ul style="list-style-type: none"> Authoritarian Participative Central guidance Multi steps 	<ul style="list-style-type: none"> Using the participative approach SAD advised to prepare financial reports using 10 accrual based IPSAS as a pilot program since 2014 Multi steps Still a voluntary requirement and most of the ministries haven't participate in this implementing process
	Outcome of the Reform		
	Reform stage	<ul style="list-style-type: none"> IN progress/ completed/abandon 	<ul style="list-style-type: none"> Sri Lanka hasn't abandon the process due to stimuli /external environmental pressure. In 2018 Sri Lankan Cabinet approved a multi-year plan to

			transition to accrual-based accounting for central government agencies
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6. Findings

Evidence of this research shows that accounting practices of the public sector organisations in developing countries, specifically in Sri Lanka, is gradually shifting from traditional cash based to accrual based accounting practices. Sri Lankan authorities understand the advantages of this so-called reform and its necessity to attract much needed international funding and other resource. SAD issued three circulars and urge all the government ministries and departments to identify financial year 2014 as the pilot year to adopt the process as an initial step of implementing accrual based accounting structures in the public sector (SAD, 2013a, 2013b, 2013c) and arrangements were made to provide necessary technical support for the new move. Use of efficient accounting software is crucial for an effective practice and to facilitate this need 'computerised integrated government accounting system' (CIGAS) was introduced among the central government ministries and departments in January 2014 (SAD 2014) to streamline the process.

Global agencies such as World Bank and IMF indirectly use their power to influence the decisions of developing countries as external socio economic and political reform drivers (Haldma & Laats, 2002; Hopwood & Miller 1994; Lüder 1992). Sri Lankan authorities were under pressure from professional agencies such as IFAC and ICASL as professional reform drivers. This confirms the argument of DiMaggio & Powell (1983) that high dependency on international resources makes the adaptation process quicker and the stimuli for the reform adoption.

The SAD adopted the accrual based IPSAS in the central government ministries which legitimacy theory highlight as a factor to –gain the legitimacy while Flynn, Moretti, and Cavanagh, (2016 p.9) report that "The government plans to

expand incrementally the coverage of the financial statements to a point where the move to full accruals is possible. Currently, the notes to the financial statements include a schedule of movable assets acquired since 2004. For land and buildings, there is a current process of valuation or revaluation which, once completed and together with the data on movable assets, should permit a switch to accruals-based disclosure of fixed assets". This report further explains that accrual accounting reforms in Sri Lanka entails in three parallel dimensions of fiscal reporting which is a good indication of transition from cash to accrual base SLPSAS –in the public sector according to the international experience in the process such as:

- Recording of stocks in the balance sheet, beginning with a financial balance sheet and with the ultimate goal of publishing a comprehensive balance sheet of the government's financial and nonfinancial assets and liabilities valued in accordance with international standards;
- Recognition of flows in the operating statement with the ultimate goal of recording all transactions at the time economic value is transferred (rather than at the point cash payments are made) and as well as other economic flows that affect the government's net worth (such as changes in the value of government asset holdings); and
- Consolidation of institutions with the ultimate goal of including all institutional units under the effective control of government in fiscal reports, regardless of their constitutional status or legal form (Flynn et al., 2016 p.9,10)

Sri Lanka has made great economic and social progress since the end of a three-decade civil war that has been adversely affecting the ~~socio-economic~~socio-economic development of the country (Senerath Yapa and Ukwatta 2015; Jayasinghe, Nath & Othman 2015). Most of those development activities were mainly funded by

the international donor agencies such as ADB and IMF and these agencies highly influence the adoption of accrual based IPSAS. High dependency on foreign funding and very high government foreign debt played a major role in influencing Sri Lankan authorities to adopt these changes as stimuli.

According to Jayasinghe, Nath & Othman (2015) public sector reforms in Sri Lanka is highly influenced by political philosophy of the country. MOFP Sri Lanka (2006, p.211) proposed a ~~ten-year~~ten-year framework called 'Mahinda Chinthana': as the vision for the country which clearly highlighted the shortcomings of the existing public sector management systems and MOFP made all the necessary arrangements to address some of these shortcomings by adopting accrual based IPSAS for better transparent and accountable public sector delivery replacing outdated systems. The coalition government coming to power as a political change negatively impacted the ongoing policy reforms and the ~~socio-economies~~socio-economic development of the country.

Sri Lanka has introduced 10 accrual based SLPSAS by year 2012 and planning to progress but the implementation phase is problematic due to the ongoing political uncertainty. Findings of Nagirikandalage & Binsardi (2015) show how the politicisation of the public sector structures, the influence of bureaucracy and the sluggish attitudes have served as a prominent barrier in moving forward of the implementation process of accrual based IPSAS as SLPSAS in Sri Lanka. Nobes & Parker (2008) identified the importance of social and political environment in institutionalisation of and implementation of new policies and practices, as they provide the legitimating and regulative basis for action (Hopper & Major, 2007); which contingency model highlight as the institutional arrangements and the impact of political reform promoters in the process

Even though the adoption of SLPSAS was a priority according to international funding and other resource providing agencies, the political uncertainty (World Bank 2016; Nagirikandalage & Binsardi, 2015) and the change of government impacted the implementation of accrual based IPSAS as the political bureaucracy is the main determinant factor of policy implementation. According to World Bank (2016, p.18) "The new coalition government ... needed to carry out the envisaged structural policy and institutional reforms that are a key part of its vision. Implementation of its vision is feasible but will likely be a complex endeavour, given the diversity of views inherent in a coalition government; the weak implementation capacity of the public sector; the political economy surrounding some of the planned policy reforms; and the instinctive policy responses at odds with them"

As the political reform promoters, Sri Lankan cabinet has approved a multi-year plan in 2018 to continue with the accrual based IPSAS adoption process (IMF 2019) and this confirms that even though there are set backs, the country is moving forward with this reform process.

67. Conclusion and directions for future research

Cash-based accounting systems, which still operate in many developing countries, may provide inappropriate incentives for decision makers. Jreisat (2010) observed that historically, developing countries have lacked a rigorous public sector accounting framework, which leads to less transparency, and this has probably been one of the contributing factors to the corruption and the wastage of public resources in some developing countries, which is common in Asian context as well.

According to Lokuwaduge (2016, p.55), cash-based system could provide incentives for politicians to manipulate data or paint a different picture about the actual debts and reported spending as it is not a requirement of cash accounting to recognise

and report accrued expenses as liabilities. The accrual-based accounting system that requires recognition of expenses when they arise and liabilities to be reported which will promote transparency and reliability of financial reporting. This process in return leads to better analysis, and could result in alternative decisions when factors such as the government's financial position, long-term sustainability and net worth is considered (International Federation of Accountants 2012; Pina et al., 2009; Lokuwaduge, 2016). However there are some severe criticisms of adopting accrual accounting in the public sector. As explained in Senerath Yapa and Ukwatta (2015, p. 13) "most transactions on the public sector are non-exchange transactions. It means that revenues received from various sources such as taxation, do not provide equal value in return while the services provided (such as building infrastructures) do not receive equal value in return. As a result of such transactions, the principle to match revenues earned and cost incurred (labelled as the matching-principle) which is used in accrual accounting therefore is not applicable in public sector setting"

This study contributes to the limited studies in NPFM reforms in developing countries in Asia giving main emphasis to Sri Lanka. Findings of this research is limited to the ~~analysing~~ analysis of the application of accrual based accounting practices in the central government organisations in the public sector of Sri Lanka in the last three decades. This study was only based on the analysis of few documentary sources and published reports as secondary data sources. Findings of this study inform_s the institutional policy-makers and the practitioners of the public sector accounting on the context-specific factors worth considering in the adoption and implementation of accrual based accounting practices in a developing country with limited resources to support the implementation of the universal best practice Accrued based IPSAS.

Since its introduction of IPSAS, Sri Lankan central government agencies were encouraged to adopt accrual basis principals and the central government agencies are currently in the process of moving from ~~cash-based~~ ~~cash-based~~ budgeting to output based accrual accounting. In the year 2014 public sector agencies were advised to adapt the ~~accrual based~~ ~~accrual-based~~ accounting as a pilot study while continuing the existing ~~cash-based~~ ~~cash-based~~ accounting as the main accountability mechanism. This pilot project provided the authorities to gain experience in adopting these changes in the public sector and to understand the dynamics of implementation and the sustainability of new change process.

Sri Lanka is in the preceding phase of implementing the accrual based accounting systems. International organisations such as World Bank, ADB and IMF are supporting this move by providing funding for training and other technical and system upgrading facilities, while influencing the authorities for prompt implementation which is one of the main determining factors. This paper examined the determinants of this accrual based IPSAS adoption process, in light of the NPFM reforms. However, ~~the way and the status of implementing and regulating the accrual basis accounting systems and their practical applicability is beyond the scope of this research as Sri Lanka is in the initial stage of this implementing process.~~ ~~This could be the direction for future research agenda for the IPSAS adoption process in the Sri Lankan context.~~

~~Sri Lanka using~~ Using the phase method, Sri Lanka has issued 10 accounting standards as SLPSAS and the adoption of these 10 SLPSAS are not yet mandatory (-ACCA 2017). In the year 2014, public sector agencies were advised to adapt the accrual based accounting as a pilot project while continuing the existing cash based accounting as the main accountability mechanism. The main aim of this pilot project

is to gain experience and to identify existing barriers in adopting accrual based accounting in the public sector and to understand the dynamics of implementation and the sustainability of new change process. Even though the 10 accrual based SLPSAS in Sri Lanka similar to IPSAS include the presentation of financial statements and cash flows including required disclosures, most of the public sector financial statements do not fully comply with the SLPSAS requirements as it is still a voluntary requirement. As the contingency theory highlights, authorities use the participative approach to give responsibility to the ministerial authorities to follow the process, however the outcome is ineffective.

IMF country report of Sri Lanka released in May 2019 revealed that moving towards accrual based accounting (IPSAS) in the Sri Lankan public sector was one of the project considered in the 2018 Reform Progress under the IMF Extended Fund Facility (EFF) and Capacity Development agenda. It states "Cabinet approval in October 2018 of a multi-year plan to transition to accrual-based accounting for general government; Dedicated unit within MOF established in April 2019 to manage transition to fiscal reporting consistent with GFSM 2014." (IMF 2019 P.58), which confirms that IPSAS adoption project is moving forward. Even though there are shortcomings, Sri Lanka has not abandoned the adoption of accrual basis IPSAS process compared to some other developing ~~countries~~ in Asia ([Adhikari et al., 2019](#)). Nagendrakumar (2017, p.27) states that "Positive negotiation among the actors, effective incorporation of the change and strong acceptance of the reforms would lead to the conscious institutionalization of the accounting practices". Due to unstable economic conditions, high foreign debt and the political crisis (stimuli) in Sri Lanka, international funding agencies and other resource providers such as IMF, World Bank and ADB, Professional bodies ACCA, ICASL and IPASB as reform promoters play an

influential role to implement the accrual based IPSAS adoption process, which is the main argument of the contingency model.

58. Reference

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