

Public Sector Accounting Reforms in Two South Asian Countries: A Comparative Study of Nepal and Sri Lanka

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Abstract: Many developing countries have already embarked on and some are in the process of streamlining their public sectors. However, little research has so far been devoted to studying the ongoing public sector reforms covering accounting and budgeting reforms in developing nations. Moreover, albeit comparative studies on this subject matter have increased in recent years, the latter is confined within the purview of developed nations. Given this lack of knowledge along with the paucity of comparative research covering developing nations, the present paper aims at tracing and, in so doing, comparing public sector accounting reforms in two developing countries, namely Nepal and Sri Lanka. The findings of the study suggest that reforms in both countries have been much affected by overseas developments, reflecting the NPM and NPFM trends.

Keywords: Public sector reforms; Accrual accounting; Nepal; Sri Lanka

1. Introduction

The public sector worldwide has been experiencing changes under the banner of New Public Management (NPM) since the last three decades (Cortes, 2006; Lambert and Lapsley, 2006; Lapsley, 2009). Studies demonstrate that a growing number of countries have, in recent years, introduced cost improvement programs, performance indicators, financial management information systems, financial targets, delegated budgets, and resource allocation rules, to name but a few, as part of NPM reforms (Arrington and Watkins, 2007; Groot, 1999; Pettersen, 1999). However, the transformation of the accounting system from being cash to accrual based has been the most discussed and debated issue within the theme of NPM reforms- a phenomenon also referred to as New Public Financial Management (NPFM) (Guthrie *et al.*, 1998 and 1999).

Indeed, a number of reasons have been given to explain the widespread dissemination of NPM and NPFM ideas across countries ranging from a consequence of financial crisis to increasing public debts to a global trend (Czarniawska and Sevón, 1996; Hyndman and McGeough, 2008; Sahlin-Andersson, 2001). In the context of developing countries, NPM and NPFM ideas have been envisaged, particularly by international organizations namely the World Bank, the Asian Development Bank, and the IMF, as a means of initiating structural changes, mainly privatization (Mimba *et al.*, 2007). The adoption of NPM and NPFM ideas has therefore become a precondition for many developing nations ensuring external funding and expert knowledge (Chan, 2005).

Mimba *et al.*, (2007) state that many developing countries have already initiated NPM and NPFM reforms and some are in the process of reforming their public sectors. However, it is striking that little research has so far been devoted to studying the ongoing public sector reforms covering accounting and budgeting reforms in developing nations (Bourmistrov and Mellemvik, 2005; Chan, 1996). Moreover, albeit comparative studies on this subject matter have increased in recent years (see e.g. Guthrie, 1998; Pina and Torres, 2003; Sahlin-Andersson, 2001) the latter is confined within the purview of developed nations. Calls have been made to promote comparative studies between developing nations on this topic so as to reflect the varied paths and attitudes towards public sector reforms in different contexts (Chan, 2000; Timoshenko and Adhikari, 2010).

Given this lack of knowledge along with the paucity of comparative research covering developing nations, the present paper aims at tracing and, in so doing, comparing public sector accounting reforms in two developing countries, namely Nepal and Sri Lanka. The study is particularly focused on giving a better understanding of the underlying reasons for public sector accounting changes in these two countries. The changes of political landscape in the early 1970s of Sri Lanka and the emergence of Nepal in world politics at the beginning of the 1950s have motivated us to trace public sector reforms, particularly accounting changes in these two countries, from the mid-twentieth century until recent times.

The paper draws on an institutional perspective in that it deals with how organizational changes are shaped by exogenous and endogenous forces (see e.g. DiMaggio and Powell, 1983; Meyer and Rowan, 1977). The extent literature relies upon institutional theory to

shed light on the role of accounting practices and other public sector reforms in maintaining the appearance of legitimacy (Modell, 2009). Moreover, many of these studies covering the case of developed nations have demonstrated how countries strive to embed the generally accepted accounting rules and practices in their formal structures without considering the relevancy of such rules and practices in their particular context (Carpenter and Feroz, 2001; Connolly and Hyndman, 2011). With some exceptions (Adhikari and Mellemvik, 2010a) there is, however, a lack of studies attempting to present the comparative analysis of public sector accounting reforms in developing nations using the institutional lenses. This study therefore intends a contribution to this literature on institution theory by presenting the case of two developing nations.

Nepal and Sri Lanka are worth exploring as they represent a group of developing nations, which have experienced similar ethnic and political conflicts in the past decades. Both countries, located on the South-Asia subcontinent, are dependent to a large extent on international aid and loans for development activities. As a percentage of GDP Sri Lankan government foreign debt stood at 36.5% and its dependence on foreign financing sources to cover the budget deficit is 5.1% of GDP in 2009 (see Central Bank of Sri Lanka, 2010). Similarly, Nepal received average international aid worth of 5% of GNI in 2008/2009. The financial deficits of the country stood at about 5% of GDP and the total external debt at about 29% of GDP (MoF, 2010). This dependency on international resources means that both countries are exposed to pressure by international organizations, namely the World Bank, the International Monetary Fund, and the Asian Development Bank for structural changes in the provision of services (Haque, 2001). Based on these similarities, one could assume that the institutionalization of accounting changes and other public sector reforms in Nepal and Sri Lanka was very similar.

The remainder of this paper is structured as follows: the next section introduces our theoretical framework explaining accounting changes. This is followed by a discussion of public sector reforms, particularly accounting and budgeting reforms in Nepal and Sri Lanka respectively, from the 1960's and 1970's up to recent times. Section Four compares and discusses reforms in Nepal and Sri Lanka in the light of the theory applied. Following this, concluding remarks are incorporated. Finally, implications of this are presented.

2. Theoretical framework

There are many ways of understanding how accounting rules and practices become an institution. Two ways of constructing a particular institution are worth looking at more closely. Firstly, organizations on a number of occasions formulate institutions by learning from their experience. March (1991) defines this mode of creating institutions ‘a way of learning through exploration and exploitation of own experience’. Next, institutions can also be seen as a result of the interconnection between organizations and their operating environments (Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

Institutional approaches, particularly the so-called ‘new institutionalism’ propagated by Meyer and Rowan (1977) and DiMaggio and Powell (1983), emphasize that organizations endeavour to adopt socially accredited systems, procedures, practices, and structures that are assumed legitimate in society regardless of their appropriateness (Carpenter and Feroz, 2001; DiMaggio and Powell, 1983; Palmer *et al.*, 1993). The search for legitimacy has often proved more important than rational decision-making processes (Connolly *et al.*, 2009; Gold, 1999). Meyer and Rowan (1977) further argue that the incorporation of institutionalized rules and practices in their formal structures also provides organizations with a means of protecting them from having their conduct questioned. The concept of decoupling, which demonstrates the extent to which the rules and practices adopted from the external environment are distinct from actual organizational practices, has therefore become a central issue in institutional theory.

DiMaggio and Powell (1983) state that legitimated structures, processes, procedures and practices are exported to organizations, i.e. through coercive, mimetic, or normative pressures or by the cumulative pressures of two or all of them. These three institutional pressures have provided a theoretical setting for a number of studies attempting to explore the interconnection between public sector changes, particularly accounting reforms and the context in which changes take place (Adhikari and Mellemvik, 2009; Adhikari and Mellemvik, 2010a; Carmona and Macias, 2001; Carpenter and Feroz, 2001; Carmona and Donoso, 2004; Timoshenko and Adhikari, 2010).

The coercive pressure consists of both the formal pressure imposed through legislation and informal pressures exerted on organizations by other organizations due to fiscal stress and

the situation of resource dependency (Connolly *et al.*, 2009). The main argument is that the organizations providing the resources critical for the existence of another organization gain the opportunity to exercise authority or power over such a dependent organization (DiMaggio and Powell, 1983; Mizruchi and Fein, 1999). DiMaggio and Powell (1983) argue that reforms imposed by coercive pressures tend to be of a rather ceremonial nature. The mimetic pressure, resulting from uncertainties, leads organizations to model themselves on similar organizations regarded as successful or legitimate organizations (Covaleski and Dirsmith, 1988; Hassan, 2005). Ribeiro and Scapens (2006) demonstrated the role of consultants in promoting mimetic changes. Normative isomorphism implies that organizations endeavour to adopt the systems, practices, and procedures widely propagated by professional bodies. This also means that normative pressure is linked to professionalization - the collective struggle of professional bodies, consultants, and experts to determine the appropriate conditions and methods for adhering to their standards (see e.g. Carpenter and Feroz, 2001; Dillard *et al.*, 2004; DiMaggio and Powell, 1983; Fein and Mizruchi, 1999; Jacobs and Jones, 2009; Levitt and Nass, 1989; Palmer *et al.*, 1993).

Studies have applied the idea of an institutional perspective to exhibit the role and influence of international monetary institutions in the dissemination and execution of public sector reforms in developing countries (Adhikari and Mellembvik, 2010a; Timoshenko and Adhikari, 2009; Timoshenko and Adhikari, 2010). These studies pinpoint to the fact that the political survival of a government in developing countries very much depends upon its ability to bargain with these external institutions and their requirements. While the lower bargaining power of the government is likely to exert a higher degree of institutional pressures, the higher bargaining power is expected to reduce the degree of institutional pressures in pursuing public sector reforms. This paper intends to add knowledge to these studies by exploring the influence of international monetary institutions in the public sector reforms of Nepal and Sri Lanka.

3. Research method

This is a descriptive case study seeking to examine and compare public sector reforms, particularly central government accounting reforms in Nepal and Sri Lanka starting from their beginning in the 1960s (Nepal) and 70s (Sri Lanka). Moreover, we have attempted to assemble accounting and budgeting changes in Nepal and Sri Lanka, respectively into

three successive periods in order to achieve the goals of this study. Our choice for this is due to the identified patterns of continuity and change in accounting and budgeting reforms in both the countries. Also, by bracketing the time period, we have striven to study what pressures have forced Nepal and Sri Lanka to initiate accounting and budgeting changes overtime and what has remained unchanged and what has altered.

The empirical evidence presented in this paper is mainly drawn from a collection of official documents issued by the governments of Nepal and Sri Lanka respectively, accounting and budgeting regulations and procedures in both countries, and reports issued by international organizations, particularly the World Bank, the Asian Development Bank, and the International Monetary Fund. These reports include, amongst other things, the World Bank's Country Financial Accountability Assessment of both countries, a Comparison of Public Sector Accounting and Auditing in Nepal and Sri Lanka with International Standards, the ADB's Nepal Public Financial Management Assessment and the Diagnostic Study of Accounting and Auditing Practices in Sri Lanka.

It is also worth mentioning that a variety of other secondary sources such as textbooks, articles, and websites dealing with public sector accounting in both countries has been widely accessed for the purposes of this study in order to solidify the level of precision. Moreover, observation of government accounting practices both in Nepal and Sri Lanka during our regular visits to these countries and informal talks with government officials, academics, and professional accountants have not only contributed to enriching the empirical evidence, but also to ensuring the relevance and validity of the secondary sources applied. Five visits were made to Nepal in the period from 2003 to 2009, whereas four visits to Sri Lanka took place from 2006 to 2009. Information conversations were held with professional accountants, representing the Institute of Chartered Accountants, and senior government officials and accountants from the Ministry of Finance in both the countries.

4. Public sector accounting changes in Nepal and Sri Lanka

This section endeavors to cover public sector accounting reforms in Nepal and Sri Lanka since the beginning of the 1960s and 1970s respectively. In doing so, the section demonstrates what types of accounting changes have been proposed in these two countries

and the efforts undertaken to implement these accounting changes. This section starts with the case of Nepal, followed by describing accounting reforms in Sri Lanka.

4.1. The case of Nepal

Initiation of Accounting Changes

The cash basis accounting system was introduced and institutionalized in the government of Nepal in the 1960s. The UN and the USAID participated in this reform process and emphasized the importance of cash accounting to achieve greater control over budgetary allocations, especially those expenditures sponsored by donors and international organizations in the form of development grants and aid (Adhikari and Mellemvik, 2009). They offered the government both resources and expertise to conduct training to government officers and accountants, who were unacquainted with cash principles. More than 4000 government officials were given accounting knowledge during the 1960s making it possible to institutionalize the cash accounting system across the country (Donnalley, 1967).

Along with cash accounting, the UN and the USAID had also envisaged the importance of program and performance budgeting (hereafter, PPB). The PPB was in fact seen as a means of executing the development budget - largely consisting of foreign aid and grants. In the budget speech of 1969, the Prime Minister implicitly hinted at the government's plan to introduce the PPB system (Waldman, 1970). International organizations were assured that the projects included in the development budget would be examined closely in order to determine their economic feasibility and the benefits likely to accrue to the nation. Moreover, a commitment was formed with a view to strengthening the administrative and technical capacity of the concerned departments in implementing the development projects.

Nepal could not, however, execute the plan to introduce PPB as intended. Waldman (1970, p. 2), the USAID advisor appointed to help implement the PPB in the Ministry of Food and Agriculture, cited the implementation difficulties in the following way: "This new budgeting technique (PPB) was imposed upon an existing management and administrative system reflecting the traditional society's bureaucratic outlook characterized by an over-

concern for propriety of expenditure.” The implementation of PPB remained therefore largely ceremonial with no impacts on the selection and reporting of programs and projects.

The Emergence of Accrual Accounting Ideas

Accounting and budgeting reforms embarked on in the 1970s were mainly intended to facilitate the implementation of PPB. At the outset, attempts were made to decentralize financial administration. The line ministries were empowered by being awarded delegated authority to disburse the allocated budgets to their subordinate agencies and consolidate their budget reports. Moreover a new norm was enacted in 1981, i.e. ‘procedures for operating government’s incomes and expenditures’ with a view to strengthening ongoing efforts towards financial decentralization. The norm resulted in the expansion of the services of the FCGO at regional level by establishing ‘District Treasury and Controller Office (DTCO)’, in all seventy-five districts.

Notably, the DTCO’s, which functioned under the auspices of the FCGO, introduced a change in the existing financial hierarchy by establishing a link between the line ministries and the spending units in budgeting and reporting (Shrestha, 2000). They started to transfer allocated budgets to the district offices concerned, thereby limiting the role of ministries in the budget release process. Moreover, the offices introduced a trend of preparing consolidated district reports having carried out internal audits of all district accounts. All in all, the operation of the DTCOs envisaged improvements in budget implementation and control at distinct levels and created optimism for re-introduction of PPB (Sharma, 1996).

In 1985, this renewed focus on PPB resulted in the introduction of a new set of financial administration regulations, mandating all government agencies to evaluate and analyze the potential costs and benefits of each development project and program under consideration (Sharma, 1996). There were also concerns about changes in other important financial disciplines, for instance accounting and reporting, so as to ease the process of implementing PPB. The prevailing cash accounting was claimed to be inadequate in terms of identifying the full costs of development projects.

In 1987, a government accounting and auditing improvement project was set up by the Financial Comptroller General Office (FCGO, 1988). A main goal of the project was to

initiate reforms in public finance in order to provide favorable conditions for the implementation of PPB (AGO, 1989). The team proposed a new accrual accounting manual comprising accounting codes, classifications, and formats and then submitted this to the government. In 1989, the government announced the launch of new accounting codes underpinning the accrual principle in some development projects. However, lack of resources, professional expertise, and technical competence forced the government to halt experimentation with the new accounting system after just a few months.

New Waves of Reforms

Notably, the political change of 1990 provided the country with a fresh and candid impetus to initiate public finance reforms. Initially reforms in Nepal were very focused on reinforcing budget implementation. The budget norms were revisited in order to enforce government entities to demonstrate the accounts and the goals achieved from previous spending. Despite these reform attempts, the country, however, witnessed by the end of the 1990s a large reduction in international grants and aid. The main reason was the country's failure to demonstrate improvements in resource mobilization and public service delivery. Notably, international organizations pinpointed two major weaknesses in Nepalese public finance (World Bank, 2002; Asian Development Bank, 2005). Firstly, selection of development projects was seen as rather 'donor driven' diverting from local requirements (NDF, 2004). Next, there was a lack of concentration on the results and outcomes of development projects and programs.

At the outset of the new century, a series of joint studies were conducted in cooperation with international organizations in areas such as public accountability and procurement administration to find and select the necessary public finance reform measures (Timoshenko and Adhikari, 2010). In 2002, as recommended by these studies, the government introduced a number of NPM techniques, including the medium-term expenditure framework (MTEF) and performance-oriented reporting. The implementation of the MTEF was considered important to estimate resources over the medium term, at least for three years, and allocate them in the prioritized projects and programs. Development programs and projects were included in the MTEF by categorizing them into three groups, i.e. priority 1 programs/projects, priority 2 programs/projects, and priority 3 projects/programs on accounts of their intended contributions to national development

(NPC, 2002). This classification of projects and programs was meant to help the Ministry of Finance make estimates and ensure the provision of adequate expenditures for the accomplishment of the projects and programs in question. The introduction of performance-oriented reporting was seen as being important in order to demonstrate the results and achievements of those projects and programs incorporated in the MTEF.

In the field of accounting a major recommendation was to adopt accounting standards and develop a road map for a transition towards the accrual basis of accounting (World Bank, 2002). The main argument was that it would be difficult to ensure the effective implementation of the MTEF and performance-oriented reporting without improvements in accounting. In 2005, the government attempted to address accounting sector reform by formulating a high-level public expenditure committee consisting of government officials and professional accountants. The majority of the committee members were in favour of improving the performance of existing cash accounting, albeit there were significant pressures from professional accountants to shift away from cash to accruals (Adhikari and Mellemvik, 2008). However, consensus was reached between government officials and professional accountants, representing the Institute of Chartered Accountants and the Accounting Standards Board to advance the accounting reforms by introducing the cash basis IPSAS at the outset and moving towards the accrual basis in a step-by-step approach. The main idea was that the adoption of the cash basis standards would help the country to enhance its capacity and enable it to acquire resources to be able to surmount the implementation barriers of accruals gradually (ADB, 2005; IMF, 2007).

In 2007, the government authorized the Accounting Standard Board, an autonomous body to pronounce standards for enterprises, to develop Nepal Public Sector Accounting Standards in line with the cash basis IPSAS. Interestingly enough, the Board was asked to learn from the experience of Sri Lanka in developing and adopting the cash basis accounting standards. The World Bank (2007, p.5) recommended: “The government of Nepal could form a core team to make a study visit to Sri Lanka and then apply possible changes in the existing accounting system”. In 2009, the Accounting Standards Board submitted the draft of Nepal public sector accounting standards corresponding to the cash basis IPSAS to the Ministry of Finance for approval (Adhikari and Mellemvik, 2010b). The Board has clarified that it has used the Sri Lankan accounting system as a model while drafting the standards (Guragain, 2008). The Financial Comptroller General Office has been

attempting to prepare the annual accounts for the fiscal year 2010/2011 in accordance with the cash basis Nepal public sector accounting standard corresponding to the cash basis IPSAS (Adhikari and Mellemvik, 2010b).

4.2. The case of Sri Lanka

An Emphasis on Budgeting

The power of Sri Lankan government was straddled between the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP). A SLFP headed alliance enjoyed a two-thirds majority in the House of Representatives in 1970. In the first budget speech of this government, they emphasized the necessity of establishing a socialist society (Athukorala and Jayasuriya, 1994). A new Constitution was introduced in 1972 whilst presenting a five-year development plan to pursue a six percent annual economic growth from 1972 to 1976. Budget estimates for three ministries, i.e. education, health and finance were drafted in accordance to PPB in 1971 (see Treasury, 1971). The UN rendered technical support in this respect (see Dean, 1986). Sixteen more ministries embraced this budgeting model in 1973 (Treasury, 1972). The budget estimates for the whole country for the year 1974 were presented in accordance to PPB (Treasury, 1973; Kuruppu et al., 2010).

The standard terms in PPB were *Program, Project and Object*. Instead of these, Sri Lanka used *Vote, Sub-head and Items* respectively as prescribed in the parliamentary standing orders. In 1974, the parliamentary standing orders were amended to use the three standard words associated with PPB. A lecture series consisting of three sessions organized by the Institute of Chartered Accountants in the 1960s appeared to be a significant milestone in the country (see Dean, 1986). Articles published by Sri Lankan scholars have also extended their assistance to popularize the PPB approach (see Balakrishnan, 1973; Kuruppu, 2010).

The power of government shifted to the UNP in 1977, and a new Constitution was enacted in 1978. This government embarked on liberal economic reforms and the IMF granted financial assistance. Nevertheless budgeting or accounting reforms were not endeavored. In 1994, the SLFP led alliance obtained the power of government and did not oppose the market-oriented economic policy. A project to computerize accounting systems in ministries and departments was initiated in 1995 (Kuruppu, 2010). The ADB provided

financial and technical assistance to implement this project. The ADB again sponsored a public expenditure management system project from 2000 to 2002 (see General Treasury, 2000). The purpose of this project was to improve planning and budgeting processes in the government. Computerization of public expenditure information system and Medium Term Expenditure Framework (MTEF) were a part of this project. Nevertheless, neither conventional cash-based accounting, inherited from the Britain nor the PPB approach was changed until the end of 2002.

Professional Arguments for Accrual Basis

Accounting and auditing professionals criticized the incompatibility of PPB and cash-based accounting from the 1980s. In 1980, the then Auditor General (henceforth AG) of the island expressed skepticism over the use of cash-based accounting together with PPBⁱ (see Wijayasuriya, 1997a). Wijayasuriya was the AG from October, 1971 to May, 1983. His main argument was that cash accounting does not facilitate analysing inefficiency and wastages. He recommended adopting accrual accounting to the central government of Sri Lanka. This appeared to be the first occasion whereby the necessity of changing the basis for the central government accounting has been emphasised by a native (Kuruppu, 2010).

The IMF residential advisor to the Ministry of Finance, Thomas criticised the use of a cash-based accounting system with a focus on compliance and stewardshipⁱⁱ (see Thomas, 1998). The central government accounting system should rather be intent on generating accurate cost information. Nevertheless he also stated that accrual accounting as used in the business sector is not appropriate to accomplish governments' expectations as governments would not wish to make profit. Accordingly, he proposed to adopt modified accrual accounting. ZBB and performance budgeting were also discussed. His discussion probably represents the first endeavour to bring the notion of modified accrual accounting up for discussions in the island (Kuruppu, 2010). Likewise, ZBB was presented as a futuristic budgeting technique by a chartered accountant working as a financial consultant (see Senanayake, 1998). Moreover, an administrative reform committee viewed ZBB as a budgeting approach not permitting administrators to add a margin to the existing budget and submit to Parliament, whilst seeking funds to meet expenditure in the ensuing year (see Kuruppu, 2010).

Wijayasuriya again argued in favour of adopting accrual accounting (see Wijayasuriya, 1997b). He emphasized the inability of cash basis accounting to contribute to economic development and the importance of designing accounts and financial statements to mirror a fair view of resource utilization in the government sector. Wijayasuriya further stated that accrual-based accounting would make PPB meaningful. A similar view was propagated by Sivagnanasuntharam (1997). The use of cash-based financial reporting by central governments would exhibit only a fragmentary list of cash receipts and disbursements. Activities of modern government are not simple and the impact from present financial commitments to the future is very broad. Cash-based accounting is no longer appropriate, he argued.

As described by an ADB consultant in Sri Lanka, substantial amounts of liabilities and assets were not included in the balance sheet prepared as per cash-based accounting (see Sivagnanasuntharam, 1998; ADB, 2002). Financial statements prepared in accordance with accrual accounting would avoid such deficiencies. A UN technical advisor to Sri Lanka also emphasised the importance of presenting financial statements in a comprehensible manner to ordinary people and media (Benett, 1998). In 2003, the necessity of using generally accepted accounting methods for governmental operations was discussed at a conference.ⁱⁱⁱ It was also argued that the accounting system should pinpoint activities hindering the achievement of objectives of ministries and departments. The cash-based accounting system in the island appeared to be unable to do this task (see Kuruppu, 2010).

Towards the Direction of IPSASs

The UNP and its alliance came into power in December, 2001 with the budget deficit of the country standing at 141,102 million Rupees. Unemployment, a deepening budget deficit and the problem of declining foreign assets were amongst other issues emphasised in the election campaign. Following their victory in the election, the UNP headed government initiated budgetary reforms. One of the ministers, Charitha Rathwatthe resigned from his ministerial position in order to become secretary to the Ministry of Finance. Using his administrative authority, all ministries, provincial councils, and departments and statutory boards were ordered to ensure rational allocation of public resources in accordance with zero-base budgeting (ZBB) from 2003.^{iv}

An officer from the Sri Lankan accountants' service became the Director General (DG) of the State Accounts Department (SAD) from January, 2001 to the middle of 2005 (see General Treasury, 2001). A management training unit had been established within this department by July, 2001 to provide training to its administrative staff in addition to foreign training opportunities. Likewise, this department took initiatives to organize lectures for its staff on emerging themes. In 2003, the SAD prepared the consolidated financial statements of central government on the IPSAS cash basis as a partial shift to modified accrual accounting (see SAD, 2003). This can be seen as an endeavour to gain legitimacy from international financial institutions (see Kuruppu, 2010). The WB (2007) admired the country's financial statements for the year 2002 being in accordance with the IPSAS cash basis.

This afore mentioned endeavour represented the first effort to change the conventional format of preparing financial statements inherited from the country's colonial master, the Britain. Generally Accepted Accounting Principles (GAAPs) for the cash basis of accounting were also used to prepare financial statements (see SAD, 2003; 2004; 2005). The SAD stated that additional information about assets and liabilities, and domestic and foreign debts etc. are disclosed from 2003. The AG in his report, however, argued that such information forms an integral part of the financial statements of the government. And similar information was disclosed using the previous format (see SAD, 2003; 2004; 2005).

The MTEF was used from the beginning of 2004. The SLFP and its alliance came to power in November, 2004 and a civil servant was appointed to the post of secretary in the Ministry of Finance. He had completed a Bachelor Degree in economics at a Sri Lankan University and had obtained a Doctoral Degree from an American University in the field of development economics (Kuruppu, 2010). Similarly, a chartered accountant working in the department of AG became the Director General of SAD in the middle of 2005. The new secretary to the ministry endeavoured to prepare budget estimates in accordance with performance budgeting and the MTEF from 2006 (see National Budget Circular 120\2005). The ADB got involved in assisting the Treasury to determine performance measures.

The SAD provided a comprehensive overview of the financial position, financial performance, and cash inflows and outflows- including accounting policies as from 2006. Financial statements for the year of 2005 were prepared in compliance with GAAPs. And

the guidance given in Sri Lanka Accounting Standards (SLASs) and IPSASs were also considered (see SAD, 2006; 2007; 2008). The WB (2007) acknowledged the disclosure of additional information and viewed the effort as a move towards accrual accounting. Information on moveable assets was disclosed in the notes to financial statements from 2007 (see SAD, 2007; 2008). The AG accepted that the SAD presents financial statements in accordance to SLASs and IPSASs (see SAD, 2006; 2007; 2008).

In 2009, The Public Sector Accounting Standards Committee (PSASC) of the Institute of Chartered Accountants presented its first exposure draft of Sri Lankan Public Sector Accounting Standards (SLPSASs) on the accrual basis of accounting. The President of the Institute of Chartered Accountants revealed that this institute had endeavoured to articulate SLPSASs in order to avoid losing its membership at the IFAC.^v PSASC consists of representatives nominated by the Ministry of Finance and members of the Institute of Chartered Accountants. The current Chairman of the committee is the AG of the country. This committee drafted and presented four standards corresponding to IPSASs 1, 2, 3 and 5. This shows that the introduction of accrual accounting has now become a key reform item on the agenda in Sri Lanka.

5. Discussion

This study of public sector reforms in Nepal and Sri Lanka has demonstrated a number of interesting points - both similarities and differences. These two countries have initiated reforms at more or less the same period of time by following the similar ideas, namely the cash basis of accounting and PPB. Notably, the use of cash accounting and PPB in developing countries was the key financial reform agenda of the UN and the US in the 1950s and 60s (UN, 1965). This means that reform ideas in both countries seemed to be much influenced by the international trends of the time and international consultants were involved in disseminating reform ideas in both Nepal and Sri Lanka.

The empirical evidence shows that the adoption of PPB in Nepal and Sri Lanka was guided by different motives. The main concern in Nepal was to improve the effectiveness of development budgets funded mainly by foreign grants and aid. On the other hand, the ambiguities involved in founding a socialist society had seemingly convinced Sri Lanka to embed PPB and to provide parliamentary legitimacy by amending the standing orders.

Another striking difference between them was probably Nepal's failure and Sri Lanka's success in the introduction of the PPB model. The incorporation of the PPB format had proved unsuccessful in reflecting any significant changes in Nepalese public administration. PPB was attempted institutionalized in the existing administrative system - characterized by the traditional mentality of controlling cash, lack of knowledge and understanding of PPB techniques, and financial centralization (Waldman, 1970). It was in fact this failure to institutionalize PPB which provided the country with a fresh impetus for continuing public sector reforms. The public sector reforms embarked on in Nepal in the 1970s and 1980s were, therefore, mainly focused on creating a favourable environment for the re-introduction of PPB. On other hand, the technical support of the UN, the availability of trained bureaucrats, and the involvement of professional accountants contributed to the successful institutionalization of PPB in Sri Lanka. The country also introduced the standard terms and headings associated with PPB in order to make it locally adjustable. The PPB approach has been in practice in Sri Lanka until recently, except for a few years in the new millennium in which it was replaced by the zero-based budgeting model. The case of Sri Lanka exhibits that colonial experience led the country to inherit and develop knowledge, administrative structures, and professionalism that were crucial, not only for PPB but also for other sound budgeting and accounting techniques.

What is striking is that the ideas of accrual accounting appeared in these two South Asian countries at approximately the same period of time, namely at the end of the 1980s and for the same reasons, i.e. to introduce and implement the PPB. In fact, the IFAC had started discussing the need of accrual accounting for central government in the 1980s, making the accrual basis of accounting a global agenda (see e.g. IFAC, 1996). Indeed, donors and international organizations were influential in disseminating the accrual ideas in both countries. However, in the context of Sri Lanka, professional accountants and some bureaucrats were also involved in a discussion favouring the accrual concept. Many Sri Lankan accountants and bureaucrats were seemingly aware of the notion of accrual accounting compared to their Nepalese counterparts, as they had the opportunity to achieve education and training in accounting both within the country and in the UK during the colonial period. Indeed, the Nepalese bureaucrats were deprived of such education and training opportunities undermining their participation in the reform process. In the context of Nepal, we can only see the involvement of bureaucrats and professional accountants in

accounting reforms just recently, particularly when making decisions on the adoption of cash basis accounting.

The empirical evidence underlines the point that despite much talk about accrual accounting, budgetary reforms in fact took precedence over accounting changes in Nepal. Concerns regarding accounting changes were raised later, particularly in the first few years of the new century, in order to sustain and improve the effectiveness of the newly introduced budgeting and reporting measures, mainly the MTEF and performance reporting. This also means that accounting changes had become more a supporting tool for sustaining the newly adopted budgeting and reporting measures. In contrast, the Sri Lankan case envisages that the country had placed more or less equal emphasis on budgeting and accounting reforms, particularly from 2003. As is the case of Nepal, increasing budget deficits had forced Sri Lanka to introduce budgetary techniques such as ZBB and the MTEF during the first few years of the new millennium. However, unlike Nepal, the state accounts department had also endeavoured to improve the functioning of its cash accounting by complying with the requirements laid down in the cash basis IPSAS. Moreover, the adoption of accrual accounting was emphasized in order to advance changes in the budgetary process. In this regard, accounting reforms in Sri Lanka appeared to be the fundamental infrastructure aiming to drive changes in the budgeting system.

This study of Nepal and Sri Lanka also demonstrates that both countries seem to have been persuaded, to varying extents, by the intended benefits of accrual accounting and IPSASs. As in the case of other countries (Connolly and Hyndman, 2011), accrual accounting has been envisaged in both the countries as a means of providing new and, arguably, comprehensive information for financial decision making and control. While Sri Lanka has already embarked on a move towards accruals by issuing the accrual basis standards corresponding to IPSASs, Nepal has considered the adoption of cash basis IPSAS as a means of improving its ability to implement accruals in the future. The availability of a well-trained bureaucracy and accounting profession, and fundamental infrastructure necessary for introduction of accrual accounting (IFAC, 2003) are probably the reasons why Sri Lanka seems to be ahead of Nepal in initiating accrual accounting reforms.

All in all, the pattern of institutionalizing public sector accounting reforms in both countries reflects more similarities than differences. Representing the status of developing nations

lacking necessary financial resources means that it is not easy for the policy makers in these two countries to defy the reform agenda propagated internationally. It is evident from our findings that some of the reform ideas have been relinquished by both countries after a while because they were either harder to introduce or use than originally thought (for example PPB in the context of Nepal and ZBB in the case of Sri Lanka) or have been superseded by new ideas (for example, the cash basis of IPSAS in Nepal and performance budgeting in Sri Lanka). This development in Nepal and Sri Lanka is seemingly in line with the underlying ideas of new institutionalism emphasizing changes as a means of securing external legitimacy.

As stated previously, conditions of fiscal stress and resource dependency have often been cited as two primary factors giving rise to the potency of coercive pressures (Carpenter and Feroz, 2001). These two factors are likely to enforce organizations to accept the rules, practices, and structures considered legitimate by exogenous forces. In this regard, we cannot deny the presence of coercive pressures in facilitating accounting and budgeting changes in Nepal and Sri Lanka over time. We can argue that despite reform ideas more reflecting the characteristics of normative and mimetic pressures as they are evolved by means of education and recommendations and through consultancies and workshops, they have in fact acted more coercively in both countries. The ceremonial acceptance of many reform ideas such as PPB in the context of Nepal and zero-based budget in the case of Sri Lanka provides evidence that both countries have used these internationally disseminated ideas as a strategy for securing financial assistance from their funding agencies such as the WB, IMF and ADB.

Referring to institutional literature, two or more institutional pressures are likely to operate simultaneously, making it difficult to determine the potency of individual institutional pressure at one given time (DiMaggio and Powell, 1983; Mizuchi and Fein, 1999; Carpenter and Feroz, 2001). It is evident from our findings that the coercive and normative institutional pressures exerted by international organizations have been more influential in facilitating reforms in Nepal, whereas the case of Sri Lanka reflects more or less the interplay of all three forces. What is striking in comparing these two countries is perhaps the active presence of normative processes within Sri Lanka. Unlike Sri Lanka, the case of Nepal shows that the country has rarely experienced any pressure from professional accountants, bureaucrats, and other internal forces in proceeding public sector reforms until

recently. The existence of a skilful and well-trained bureaucracy encouraging mimetic changes (see e.g. DiMaggio and Powell, 1983) has probably helped Sri Lanka embark on a move towards the accrual basis of accounting ahead of Nepal.

6. Conclusions

The present paper has sought to explore the accounting and budget reforms in the public sectors of Nepal and Sri Lanka by examining the potent institutional forces at work. Our study demonstrates that the reforms in both countries have been much affected by overseas developments, reflecting the NPM and NPFM trends. In this regard, our study can be seen as an extension to previous research demonstrating the role of international organizations in the dissemination of public sector reform ideas, particularly accounting reforms, in developing countries (Annissette, 2004; Torres, 2004; Chan, 2005; Mimba *et al.*, 2007; Adhikari and Mellembvik, 2010).

Interestingly, reforms in Nepal seem to be mainly driven by two forms of institutional pressures exerted by international organizations: normative and coercive whereas, in Sri Lanka, the coercive form of changes emerge to some extent together with the normative and mimetic nature of reforms. In the context of Sri Lanka, normative pressures appear to have been exerted from wider sources, including both exogenous and endogenous forces. However, the mimetic nature of influence for changes is seemingly growing in the island. This provides a reasonable and convincing argument for why Sri Lanka seems to be ahead in initiating and implementing the public sector reforms, including accounting reforms - as compared to Nepal.

The issuance of accounting standards for government entities corresponding to the accrual basis of IPSASs means that Sri Lanka has already embarked on a move towards the accrual basis of accounting. This stands in sharp contrast to the Nepalese case lacking trained accountants and bureaucrats at government level. In fact, the ideas of accruals have brought about divided views in Nepal, leading the country to compromise on the cash basis IPSAS. However, it is worth mentioning that our analysis is limited, it being a case study of two South Asian countries. The results may therefore not necessarily reflect the scenario in other developing countries in Africa, Latin America, and Asia. The paper underlines the need of comparative studies between other developing countries, in order to further our

understanding of how public sector reforms are being shaped in other similar contexts and the role of international organizations in public sector reforms.

7. Implications

The NPM and NPFM paradigms increasingly impact on accounting and budgeting practices in the government sector. Nevertheless, scholars have expressed scepticism on this trend (Lapsley et al., 2009). Our findings also point some interesting issues that policy makers and international institutions need to take into account whilst introducing accrual accounting and rational budgeting approaches in developing countries. It is important to have well-trained and educated administrators in the public sector to import accounting and budgeting practices used by profit-oriented institutions. The dearth of this sort of administrators in Nepal has hindered most of its reform endeavours. As a result, our findings pinpoint that it is utmost essential to recruit professional accountants to the government sector before embarking on accounting and budgeting reforms. Similarly, the bureaucracy should be given opportunities to enhance their skills and knowledge by attending national and international training programmes in order to endure reforms successfully. Moreover, this study shows that reforms initiated in the absence of administrators' consent are likely to be failed or short lived. This appears to be a reason for the failure of PPB in Nepal and the deinstitutionalization of ZBB in Sri Lanka with the change of administrative leadership in the Treasury. Therefore, the involvement of administrators in reforms discussions and decision making has to be permitted so as to materialize reforms and to remain them effective even after the change of governing leaders.

ⁱ The Inauguration Ceremony of IPFDA at Hotel Janaki in Sri Lanka, 28th to 31st March, 1980.

ⁱⁱ A Seminar on Budgetary Management and Expenditure Control at Sri Lanka Institute of Development Administration, 28th March, 1997.

ⁱⁱⁱ IPFDA, “National Conference on Government Accounting”, at Hotel Gladari in Sri Lanka, 23rd to 24th June, 2003.

^{iv} National Budget Circular No. 97 issued on 11th March 2002.

^v Workshop on Sri Lanka Public Sector Accounting Standards Exposure Drafts at Hotel Galadari in Colombo on 15th June 2009.

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