


Chapter 2

Accounting Reforms for Accountable Public Sector Management: A Sri Lankan Study

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ABSTRACT

Accounting reforms in the public sector have become one of the most debated aspects of the public sector financial management during the last three decades. Following the steps of developed countries around the globe, Sri Lanka as a developing country made initiatives to adopt international public sector accounting standards (IPSAS). The purpose of this study is to analyse the progress and the challenges they face in adopting IPSAS as a new public management (NPM) reform in Sri Lanka to enhance public sector accountability. Public sector accounting reforms in the developing countries in Asia is relatively under researched. Using the NPM concept, this study attempts to fill this gap. This chapter argues that even though Sri Lanka has initiated the move towards adopting IPSAS, developing countries face practical problems in adopting reforms due to their contextual factors such as limited institutional capacity and resources, high political involvements in decision-making, and high informality.

DOI: 10.4018/978-1-7998-1385-9.ch002

INTRODUCTION

The International Public Sector Accounting Standards Board (IPASB) introduced International Public Sector Accounting Standards (IPSAS) equivalent to the International Financial Reporting Standards (IFRS) for public sector entities to provide more transparent and accurate financial information of the public sector entities for better accountability. IFRS which is applicable to reporting entities and listed companies around the globe created an accounting harmonisation providing more accurate and transparent financial information to their stakeholders. There is a compelling need of greater clarity of the financial position of public sector entities across the world and the diversity in public sector financial reporting systems hinder the purpose of reporting which created a need for the public sector accounting harmonisation (Shil, Das, & Pramanik, 2009). *Following the Asia crisis of the late 1990s, countries in South Asia embarked on financial management reforms.... Funding from donors such as the IMF and the World Bank required public finance management reforms, including the adoption of accrual accounting standards based on IPSAS... to provide greater accountability and transparency to enable the countries to improve their public financial management* (Association of Chartered Certified Accountants (ACCA) 2017. pp.8). Adoption of IPSAS has been identified as a very important application of New Public Management (NPM) reform in accounting practices of the government agencies among the developed countries during the last two decades (Guthrie, Olson & Humphrey 1999). During the early 1980s public sector was highly criticized for inefficiency and ineffectiveness (Ter Bogt & Van Helden, 2005; Lokuwaduge 2016) created a need for public administration reforms around the world. According to Lokuwaduge (2016. pp. 50) changes were introduced to the public sector management as a result of above criticisms which existing research (Adhikari & Mellemvik, 2010; Lambert & Lapsley, 2006; Lapsley, 2009) identified as 'New Public Management' (NPM). NPM reforms which introduced to overcome the bureaucratic problems and to improve accountability and performance (Christensen 2007; Olson, Guthrie & Humphrey 1998; Heald 2003) includes range of public management reforms such as contracting out of public sector service deliveries and private like performance management. Private sector business style accrual accounting was considered as the desirable way to report the performance of financial and investment management of central government agencies. Business style accrual accounting as IPSAS for government agencies was initially adopted by the Anglo Saxon countries such as New Zealand and Australia. Since been incorporated into both International Financial Reporting Standards (IFRS) and the international Public Sector Accounting Standards (IPSAS) (Robb & Newberry, 2007; IPSASB, 2007), the International Federation of Accountants (IFAC), international

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