

Chapter 3

Exploring the New Public Management (NPM)–Based Reforms in the Public Sector Accounting: A Sri Lankan Study

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ABSTRACT

This Chapter aims to explore the process of adopting International Public Sector Accounting Standards (IPSAS) as a New Public Management (NPM) based reform in Sri Lanka as a developing country. Based on institutional theory and resource dependence theory, framework was developed to highlight the importance of reforms and of changes in the area of public sector accounting specifically during the last three decades. It shows the extent to which Sri Lankan public sector has adopted IPSAS based accounting reforms and the limitations of adopting these standards in developing countries. This chapter argues that adopting reforms in developing countries is problematic due to limited resources and concludes that, significant changes towards adoption of IPSAS and implementing some of the reform ideas has taken place during the last decade. Relatively little is known about the NPM-based reforms in public sector accounting practices in developing countries. This is an attempt to fill this gap.

INTRODUCTION

Research on public sector accounting practices in developing countries has grown over the past decade and this growth may be attributable to increased globalization, technological advancements and the growth of capital markets (Adhikari, Kuruppu, & Mellemvik, 2009; Alawattage, Hopper, & Wickramasinghe, 2007; Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2009). The diversity in public sector financial information systems around the world created a need for harmonisation of accounting regulation and

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practice (Shil, Das, & Pramanik, 2009) which resulted in the elaboration of International Public Sector Accounting Standards (IPSAS). Research published during the last decade (Adhikari et al., 2009; Grossi & Soverchia, 2011; Lüder & Jones, 2003) states that the international trend towards modernizing the financial information systems to adopt sound financial management and accountability is likely to continue and the stimulus in this evolution has the support of international organisations such as OECD, NATO, United Nations, world bank, IMF, the European Commission and accounting professional organisations such as international public sector accounting standards board (IPASB) and the International Organisation of Supreme Audit Institutions (INTOSAI).

New Public Management (NPM), which was clearly integrated into the public sector during the past 25 to 30 years (Ter Bogt, Budding, Groot, & Van Helden, 2010) is associated with *the endless list of accounting based, 'financial management' techniques that are drawn upon in the pursuit of reform* (Guthrie, Olson, & Humphrey 1999, pp. 210). Efficaciousness of adopting IPSAS in the whole world including less developed countries aimed at improving the accountability and efficiency among public sector institutions, which identifies as an application of NPM-based reforms in accounting practices by researchers (Guthrie et al., 1999; Ter Bogt et al., 2010; Van Helden, 2005). The rise of the public administration reforms around the world are traced back to early 1980. During this period, public sector was highly criticized for inefficiency and ineffectiveness (Ter Bogt & Van Helden, 2005). As a result of above criticism, changes were introduced to the public sector management which researchers (Adhikari & Mellemvik, 2010; Lambert & Lapsley, 2006; Lapsley, 2009) identified as 'New Public Management' (NPM). *Basically New Public Management (NPM) has advanced the introduction of 'economic rationality' in the public sector...* (Ter Bogt et al., 2010, pp. 241). Hood (1991, 1995b) discussed some common elements which indicate some main characteristics of NPM reforms such as the adoption of accounting based, 'financial management' techniques to minimize or remove the differences between the public and the private sector (Guthrie et al., 1999; Hood, 1995a; Olson, Humphrey, & Guthrie, 2001). It is therefore an influential set of management techniques drawing upon private sector performance criteria and practices (Lapsley, 2009), that is aimed to changes in the way public sector delivers services to the end users in a more cost effective manner. Studies on public sector management demonstrate that a growing number of countries have introduced new management initiatives such as performance indicators (Wholey, Mayne, & Zapico-Goñi, 2007), cost improvement programs, financial management information systems, financial targets, delegated budgets (Groot, 1999; Pettersen, 1999; Watkins & Arrington, 2007) as NPM reforms also referred to as New Public Financial Management (NPFM) reforms by some researchers (Guthrie et al., 1999; Olson et al., 2001).

This study focuses on accounting policy reforms introduced globally in light of NPM, which Guthrie et al (1999) and Olson et al. (2001) identified as New Public Financial management (NPFM) and the adoption and implementation of accrual based accounting systems derived from IPSAS, giving special reference to Sri Lanka as a developing country. International public sector accounting standards board (IPSASB) introduced the accrual based accounting for public sector reporting In 2009 and the main aim of this chapter is to analyse to what extent central government agencies in Sri Lanka have adopted accrual based accounting and IPSAS for public sector reporting. The principal motivation forces for this chapter are to extend the knowledge of the adoption process of IPSAS in developing countries and to contribute to the limited studies in public sector accounting reforms particularly in Sri Lanka.

The purposes of this research is to examine the change process of public sector accounting from traditional cash based budgetary accounting to accrual accounting systems using evidence from Sri Lanka as a developing country, and explore the motivations for such developments from 1980s to-date.

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