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Dissemination and institutionalization of public sector accounting reforms in less developed countries: A comparative study of the Nepalese and Sri Lankan central governments

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ABSTRACT

One of the major issues in the developing world today is the alleviation of poverty and it is acknowledged that public sector accounting has a key role to play in this through the effective allocation of resources. Implementing public sector accounting changes in developing nations has been a key agenda of international organizations since the 1980s. This study, drawing on the ideas of new institutionalism, strives to explore the implementation of public sector accounting reforms in two less developed countries (LDCs), namely Nepal and Sri Lanka. The empirical findings of the study demonstrate that, while internationally propagated public sector accounting reform ideas have not gone beyond the trial/proposal stage in Nepal, colonialism has bequeathed on Sri Lanka the promotion of accounting education and training, enabling the country to implement some of these reform ideas. However, increasing resistance to accounting changes at the lower administrative level, witnessed in both countries, indicates a need to understand the contexts of LDCs and to fulfil basic preconditions prior to disseminating/embarking on reforms there.

1. Introduction

New Public Management (NPM) reform ideas have been a means of reinventing the role of government in many countries in the last few decades (Hood, 1995). Accounting change, mainly a transition towards accruals in OECD member states, has been one of the most widely discussed NPM phenomena under the rubric of New Public Financial Management (NPFM) (Guthrie, Olson, & Humphrey, 1999). Despite this being a controversial reform, however, the extant literature demonstrates that there is no indication of a diminishing interest in accruals among OECD member countries (Hyndman & Connolly, 2011; Lapsley, Mussari, & Paulsson, 2009; Paulsson, 2006; Pollanen & Loiselle-Lapointe, 2012). More recently, the European Parliament has embarked on the process of drafting a legislative resolution to mandate member states to apply accrual accounting comprehensively and consistently, covering all sub-sectors of general government (Ball & Pflugrath, 2012). The importance of accrual accounting has been predicated on the assumption that it helps to enhance the transparency of governments' obligations and contingent liabilities, incurred as part of their austerity measures to stabilize the markets.

The discussion on accounting changes has not been limited to developed countries, but has increasingly gained ground in less developed countries (LDCs). One of the major issues in the developing world today is the alleviation of poverty and it is acknowledged that public sector accounting has a key role to play through the effective allocation of resources (Goddard,

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2010; Rahaman, 2010). Implementing accounting changes, particularly accrual accounting, programme and performance budgeting (PPB), and accounting standards, in LDCs, has been a key part of the financial reform agenda of international organizations, particularly the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB), since the 1980s (Allen, 2009; Dean, 1988). In its agenda paper, the International Federation of Accountants (IFAC) (2010) reports that a large number of developing nations are now considering adopting International Public Sector Accounting Standards (IPSASs), particularly the cash basis IPSAS, with the financial and technical support of the World Bank. It has been claimed that the adoption of the cash basis IPSAS would help LDCs not only to elevate the quality of their accounting information, but also to raise their capacity to implement accruals in the long-run (World Bank, 2010).

Indeed, a stream of literature in recent years has covered the efforts of international organizations towards disseminating public sector reform ideas in LDCs, including the privatization of state enterprises, and how accounting has been used to articulate these reforms (Neu, Everett, & Rahaman, 2009; Rahaman, Everett, & Neu, 2007; Rahaman & Lawrence, 2001; Rahaman, Lawrence, & Roper, 2004; Uddin, Gumb, & Kasumba, 2011; Uddin & Hopper, 2001, 2003). These studies have presented a common view that international organizations tend to impose accounting practices in LDCs that are in fact designed to serve their own legitimation needs rather than catering to the actual needs of the LDCs and the poorest in the developing world. These international organizations have therefore been portrayed as 'imperialist' institutions driving the LDCs in a way that is tantamount to neo-colonialism (Annisette, 2004; Mir & Rahaman, 2005; Rahaman & Lawrence, 2001). However, there is still insufficient empirical evidence on the implementation of accounting reforms proposed by international organizations by the central governments of LDCs (Neu et al., 2009; Neu & Ocampo, 2007; Rahaman & Lawrence, 2001). The present paper intends to fill this lacuna in the literature by comparing the government accounting reforms in two LDCs, namely Nepal and Sri Lanka. Comparative studies have increasingly been promoted in public sector accounting to generate a better understanding of how and to what extent accounting is being used in different contexts to implement the core ideas of public sector/NPM reforms (Broadbent & Guthrie, 2008; Paisey & Paisey, 2010; Pollanen & Loiselle-Lapointe, 2012).

In particular, the aim of the paper is twofold. First, it strives to investigate the role of external environmental factors in disseminating government accounting reform ideas in Nepal and Sri Lanka. Second, it seeks to unveil whether and to what extent these two countries have been successful in implementing these reform ideas, acknowledging the role of human agencies, particularly government accountants, politicians, and professional accountants, in the implementation process. Nepal's emergence on the world political map in 1950 and the independence of Sri Lanka in 1948 respectively form the point of departure for this comparative study. The paper draws on the ideas of neo-institutional theory, also referred to as new institutionalism (Carruthers, 1995; DiMaggio & Powell, 1983), as they help to explain how and why organizations interact with their external environmental factors and how this interplay might impact upon their accounting choices and practices. The extant literature argues that neo-institutional theory has become a key theoretical lens through which to explore the choice of accounting practices in the public sector (Goddard, 2010; Jacobs, 2012). It has even been claimed that the rationale for adopting accrual accounting in the public sector is grounded on neo-institutional theory (Pina, Torres, & Yetano, 2009; Pollanen & Loiselle-Lapointe, 2012).

The remainder of the paper is organized as follows. The second section addresses the imperative of undertaking comparative studies in public sector accounting. The following section describes the underlying ideas of neo-institutional theory, which have provided the theoretical setting for this study. The fourth section outlines the research method. Thereafter, public sector accounting reforms in Nepal and Sri Lanka, from the beginning of the 1950s up to recent times, are discussed. The penultimate section compares and analyses public sector accounting reforms in Nepal and Sri Lanka in the light of the theory applied. The final section offers some concluding remarks.

2. Comparative studies in public sector accounting: an international trend

Carnegie and Napier (2002) state that on-going attempts to locate accounting within its broader operating context comprising socio-political and economic factors have led to a renewed interest in cross-national studies in accounting. With the establishment of the Comparative International Government Accounting Research (CIGAR)[1] network in 1987, there has been a rise in cross-national comparisons in public sector accounting, covering diverse contexts. The literature demonstrates that public sector accounting reforms have varied across nations, and different attitudes to reform have been seen in terms of both strategy and content (Benito, Brusca, & Montesinos, 2007; Broadbent & Guthrie, 2008; Caperchione & Lapsley, 2011; Ellwood & Newberry, 2007; Guthrie et al., 1999; Hyndman & Connolly, 2011; Pina & Torres, 2003).

For instance, Guthrie et al. (1999, p. 221), who compared public sector accounting reforms in 11 developed nations, conclude, "different types of reforms have been promoted at different levels of government, by parties from different ends of the political spectrum and in different economic and social contexts". They further state that, while some nations have commenced reforms at their local government levels, other nations have striven to implement reforms at a very centralistic level, delineating distinctive national public sector traditions. Countries have been categorized as either fast, medium or slow developers in terms of adopting public sector accounting reforms (Guthrie et al., 1999). Similarly, studies show a

[1] The CIGAR network was established in 1987 to promote worldwide discussion and research on comparative government accounting (http://www.cigar-network.net).

multitude of approaches to adopting accruals, ranging from sector-neutrality, i.e. the adoption of IFRSs, to preserving a specific public sector speciality through the adoption of IPSASs (Ellwood & Newberry, 2007; Ryan, Guthrie, & Day, 2007). More interestingly, various countries' experiences have also demonstrated a situation of decoupling, between how accrual accounting was intended to operate and how it has turned out due to differing cultural beliefs and norms in different contexts (Hyndman & Connolly, 2011).

Broadbent and Guthrie (2008) state that the findings of comparative studies into public sector accruals have enabled the transfer of good practices and prevented mistakes being repeated elsewhere. However, what is noticed is that the majority of comparative studies in public sector accounting are still confined to delineating the similarities and differences in accrual accounting reforms in OECD countries (Lüder & Jones, 2003). Research comparing public sector accounting reforms in LDCs and countries in transition is still underrepresented among publications (Alawattage, Hopper, & Wickramasinghe, 2007; Graham, 2009). This paper intends to contribute to the growing body of comparative public sector accounting research by presenting the attempts of two LDCs (i.e. Nepal and Sri Lanka) to implement public sector accounting reforms.

Nepal and Sri Lanka are worth exploring as they represent a group of developing nations that have experienced similar ethical and political conflicts in the past decades. Both countries, located in South Asia, are dependent to a large extent on international aid and loans for development activities. In 2009, the Sri Lankan government's foreign debt stood at 36.5% of GDP and its dependence on foreign financing sources to cover the budget deficit was 5.1% of GDP (Central Bank of Sri Lanka, 2010). Similarly, Nepal received average international aid worth 5% of GNI in 2008/2009, while its financial deficits stood at about 5% of GDP and its total external debt at about 29% of GDP (Ministry of Finance, 2010). This dependency on international resources means that both countries are under pressure to reform their public sectors and to improve the efficiency and effectiveness of their public service delivery through the adoption of various NPM elements (Haque, 2001). Based on their similarities, it could be assumed that the institutionalization of accounting changes and other public sector reforms in Nepal and Sri Lanka are likely to be analogous.

However, as Paisey and Paisey (2010) point out, intrinsic country-specific characteristics of Nepal and Sri Lanka, one with a colonial history and the other with a history of dictatorship, lead us to expect dissimilarities in how accounting reforms have been facilitated and institutionalized in these two countries. Hooper, Tsamenyi, Uddin, and Wickramasinghe, (2009), mention that, despite the exploitation of local resources, colonialism bequeathed upon many LDCs a relatively effective central bureaucracy and legal system, separating them from LDCs without a colonial history. In addition, prior studies have demonstrated how the colonial powers strove to impose capitalistic accounting systems in their colonies so as to extract, accumulate, and allocate economic surpluses (Annisette & Neu, 2004; Bakre, 2008). A study by Wijewardena and Yapa (1998) demonstrates that Sri Lanka, as a former British colony, inherited its accounting education and practice almost entirely from the British system. British accountants were involved in providing training to local people to facilitate the investment of British capital, mainly in the plantation sector. There was an accounting board to prescribe regulations and facilitate examinations for registered accountants as early as 1941; this was replaced by the Institution of Chartered Accountants of Sri Lanka in 1959 (Wijewardena & Yapa, 1998).

On the contrary, Nepal, representing non-colonial LDCs, was lacking fundamental means of public administration when it came onto the world political map at the beginning of the 1950s having overthrown a century-long dictatorship by the *Rana* families. Accounting practices in Nepal prior to 1950 were feudal, catering to the *Rana* rulers' desire to accumulate national surpluses for their own personal use (Adhikari & Mellemvik, 2009). During the *Ranas*' dictatorship era, there was no demarcation between the rulers' and the state's property and national savings were inherited by the prime minister and his family members (Poudyal, 1984). In fact, it was only in 1951 that the Ministry of Finance (MoF) and other state institutions were established and line-item budgeting was introduced. More interestingly, it was not until 1997 that the accounting profession was officially recognized in Nepal with the establishment of the Institute of Chartered Accountants of Nepal (ICAN), much later than the inauguration of the professional accountancy body in Sri Lanka.

This attempt to make a distinction between LDCs with a colonial history and those without could be argued to be less relevant in the era of globalization and internationalization. LDCs have now embarked on an era of neo-colonialism marked by the imperialism of international organizations. They are exposed to various NPM techniques that prevail in the West, including the adoption of so-called best accounting practices (i.e. accrual accounting and accounting standards) through their development partners and international organizations (Ezzamel & Xiao, 2011; Mir & Rahaman, 2005; Sharma & Lawrence, 2005; Uddin et al., 2011). Nonetheless, it can be argued that the different historical backgrounds of these countries (colonial or non-colonial) have had a significant impact on the institutionalization of accounting bodies, the development of the accounting profession, and the implementation of accounting reforms. Zimbabwe, for example, is a striking example in this regard; as Chamisa (2000) claims, Zimbabwe's accounting and financial environment (unlike that of many LDCs) was favourable for the adoption of International Accounting Standards (IASs). By comparing public sector accounting reforms in Nepal and Sri Lanka, this study intends to make a contribution to the substance of this debate.

3. Theoretical framework: a neo-institutional perspective for studying public sector accounting

As stated previously, this paper draws on and extends the ideas of new institutionalism, also referred to as neo-institutional theory, propagated by Meyer and Rowan (1977) and DiMaggio and Powell (1983). The underlying idea of new institutionalism is anchored on two main issues, isomorphism and decoupling. DiMaggio and Powell (1983) define isomorphism as a process through which organizations endeavour to adopt similar socially accredited norms, practices, and

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structures from their operating environment. Central to isomorphism is the notion of legitimacy, enforcing organizations to comply with external requirements regardless of the appropriateness of these requisites in their specific setting (Ball & Craig, 2010; Carpenter & Feroz, 2001; Palmer, Jennings, & Zhou, 1993). Since organizational activities are strongly motivated by legitimacy-seeking behaviour (Dillard, Rigsby, & Goodman, 2004), the search for legitimacy has often proved more important than rational decision-making processes (Connolly, Reeves, & Wall, 2009). Meyer and Rowan (1977) argue that, by promoting legitimacy, institutional isomorphism increases the success and survival of organizations.

DiMaggio and Powell (1983) state that legitimated norms and practices are transported to organizations through coercive, mimetic, and normative mechanisms. Notably, these three institutional mechanisms have provided a theoretical setting for a number of studies attempting to explore the interconnections between public sector changes, particularly accounting reforms and the context in which the changes take place (Carpenter & Feroz, 2001; Hyndman & Connolly, 2011). The coercive pressure consists of both the formal pressure imposed through legislation and informal pressure exerted by those upon whom the organization is dependent for resources (Carpenter & Feroz, 2001; Connolly et al., 2009). The underlying idea is that those organizations providing resources that are critical for the existence of another organization gain the opportunity to exercise authority or power over the dependent organization (DiMaggio & Powell, 1983; Mizruchi & Fein, 1999). This pressure appears to be a key element in describing the relationships between international organizations, in particular the World Bank, the IMF and developing nations. The first two are able to influence the articulation of reforms and policy making in the latter due to the possession of much-needed human and economic resources (Mir & Rahaman, 2005). Mimetic pressure, resulting from uncertainties, leads organizations to adhere to the path undertaken by similar organizations that are regarded as successful (Covaleski & Dirsmith, 1988). Government agencies and bureaucrats are likely to mimic the practices of the private sector, which they perceive to be more effective and efficient in dealing with uncertainty (Hassan, 2005). The bulk of studies have linked the widespread transformation of accounting systems from cash to accruals in many countries as part of the mimetic mechanism (Carpenter & Feroz, 2001; Irvine, 2011). Finally, 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 (Carpenter & Feroz, 2001; DiMaggio & Powell, 1983). Notably, the increasing popularity of IPSASs in the developing world could serve as an illustration of such professionalization (IFAC, 2010).

Another essential part of the neo-institutional based studies is their attempt to demonstrate how the legitimized structures and practices transferred through one or more of the isomorphic mechanisms have decoupled in actual organizational practices (Tsamenyi, Cullen, & Gonzalez, 2006). The concern for legitimacy often encourages organizations to engage in "window dressing" by creating an institution for ceremonial purposes. Of the responses to institutional pressure, decoupling has been one of the most widely discussed in the accounting literature (How & Alawattage, 2012; Oliver, 1991; Siti-Nabiha & Scapens, 2005). Studies have demonstrated how organizations have used accounting technologies to appear legitimate and how these accounting technologies have remained a ceremonial tool or a product of social rationalization (Ball & Craig, 2010; Rahaman et al., 2004; Siti-Nabiha & Scapens, 2005). More interestingly, the notion of decoupled accounting has ostensibly become a key phenomenon in LDCs (How & Alawattage, 2012).

In recent years, however, more studies have delineated the limitations of new institutionalism in explaining the processes whereby institutionalized ideas and practices are established, disseminated, and decomposed at intra-organizational levels (Dillard et al., 2004; Ezzamel, Hyndman, Johnsen, Lapsley, & Pallot, 2007; Liguori & Steccolini, 2012). The role of internal dynamics, in particular the role of agency and the power relationships among organizational agents at different levels, has nevertheless been neglected by institutional theorists (Irvine, 2008). In more recent literature, institutionalization has been regarded as a recursive process, with the power of organization members at different organizational levels acknowledged (Conrad & Uslu, 2012; Dillard et al., 2004; Irvine, 2011). It has therefore been argued that, despite confronting similar external environmental pressures, organizations respond differently, leading to different outcomes of the proposed changes (Ezzamel, Robson, & Stapleton, 2012; Liguori & Steccolini, 2012). As a result, organizations are increasingly perceived as fragmented rather than monolithic entities (Yang & Modell, 2013).

The ideas of the neo-institutional perspective are relevant for this study in that they enable an analysis of the influence of international monetary institutions on the execution of public sector accounting reforms in Nepal and Sri Lanka. The extant literature has demonstrated that international organizations have applied various mechanisms, mainly through reports outlining so-called "best practices" and the provision of technical assistance, to push their reform ideas in the developing world (Mir & Rahaman, 2005; Uddin et al., 2011; Uddin & Hopper, 2001, 2003). Furthermore, by considering the role of human agencies and the power relationships within the public sectors of Nepal and Sri Lanka at different levels, we attempt to unfold whether and how accounting ideas constructed at the higher administrative level have been institutionalized in the specific internal settings of these two countries.

4. Research method: a combination of unstructured interviews and document analysis

As stated earlier, our aim in the paper is to examine and compare the dissemination and institutionalization of central government accounting reforms in Nepal and Sri Lanka since their emergence on the world's political map as new and/or newly independent nations. The study can also be referred to as a 'comparative or collective case study' (Silverman, 2010; Stake, 2000), as it strives to cover the same phenomena in two countries (i.e. cases). The importance of pursuing such a collective case study is well emphasized in the literature in terms of its ability to not only generate a better and holistic understanding of the context, but also in relation to its potential for theorising about a broader context by demonstrating contrasting situations (Berg, 2009; Yin, 2003).

It can be argued that a case study approach provides the researcher the flexibility of using a wide variety of data collection techniques, such as document analysis, interviews, and observations, to name just a few (Yin, 2003). The empirical evidence presented in this paper was collected using two of these techniques, i.e. unstructured interviews and document analysis. As observed by Mir and Rahaman (2005), the underlying reason for selecting unstructured interviews was to facilitate free flowing conversations. Albeit a variety of terminologies have been used to refer to unstructured interviewing (Alvesson, 2003; Frankfort-Nachmias & Nachmias, 2008; Silverman, 2007), most scholars agree that it is indeed the most flexible type of personal interviewing.

Central to unstructured interviewing is a view that the interview situation is a socially and politically complex phenomenon and that interviewees are rational actors producing situated accounts (Alvesson, 2003; Qu & Dumay, 2011). Government accounting, particularly in the context of LDCs, is usually conceived of as being a politically sensitive issue and government accountants as politically aware and motivated actors (Adhikari & Mellemvik, 2011). It has been argued that the political awareness of the respondents leads to either active constructions in accordance with their own interests or defensive moves provoked by fear and a lack of trust (Alvesson, 2003). Recognizing this political sensitivity of the field, our unstructured interviews allowed our respondents, namely government officers, accountants, and policy makers, to focus on any aspect(s) within the research topic they perceived to be important and interesting. However, based on the feedback and the engagement of the informants during the conversations, some questions/concerns were posed to them, for example:

- How did the idea of reforming public sector accounting evolve?
- Who were involved in disseminating accounting reform ideas?
- Was there any direct or indirect participation of government officials, professional accountants, and international organizations in the implementation of accounting reforms?
- What are the priorities of the contemporary public sector accounting reform agenda?

As mentioned by Hyndman and Connolly (2011), the informants of this study were also assured that the results would be presented in such a way that the statements could not be attributed to specific individuals. Furthermore, in an attempt to formulate an amiable interview environment, tape recording was avoided and notes were taken of significant issues. Interviews were conducted over our four visits to Nepal, which occurred between 2008 and 2012, and four visits to Sri Lanka between 2006 and 2009. During these visits, 19 informants were interviewed in Sri Lanka and 27 in Nepal. Some respondents in each country were interviewed on more than one occasion given their key role in day-to-day government accounting activities as well as in facilitating reforms. Altogether, we were able to conduct 51 interviews during our visits to Nepal and Sri Lanka. A detailed break-down of the distribution of interviewees is provided in Appendix A. Each interview lasted between one and two hours. A broad spectrum of respondents were selected for the interviews, including senior and junior government accountants at the Treasury, officers at the MoF, and representatives/members of professional accounting institutions such as the Institute of Chartered Accountants and the Accounting Standards Board/Committee in both countries. Many of the interviewees were directly involved in making decisions concerning the adoption and implementation of public sector accounting reforms.

Along with the interviews, information was also gathered through the analysis of official documents issued by the governments of Nepal and Sri Lanka and reports issued by international organizations, particularly the World Bank, the ADB, and the IMF. The main reports analysed include; the World Bank's Country Financial Accountability Assessment of Nepal and Sri Lanka, published at the beginning of the new century; a Comparison of Public Sector Accounting and Auditing in Nepal and Sri Lanka with International Standards, issued by the World Bank in 2007; the ADB's 2005 Nepal Public Financial Management Assessment; and the 2002 Diagnostic Study of Accounting and Auditing Practices in Sri Lanka, among others.

The data collected through interviews and the documents gathered were analyzed by drawing out a number of themes, such as the influence of international organizations in driving public sector accounting reforms, discussions on the need for accounting change, and the implementation of and resistance to change, among others. Finally, these themes were clustered and links were established so as to discover the relationships among them. Based on this, narratives were developed and attempts were made to construct meanings by interlinking them with the theoretical approach applied. Tsamenyi et al. (2006) state that inconsistencies between interviewee responses and the findings in the literature are common in a research setting characterized by the presence of politically oriented actors, such as government officers and public sector accountants. We argue that the follow-up interviews we conducted with the Nepalese and Sri Lankan government accountants, public officers, and professional accountants have helped us to tackle inconsistencies observed between interviewee responses and the findings from the literature. Furthermore, these visits have also proved useful for clarifying issues that were either highly contested or ambiguous during our initial interviews.

5. Public sector accounting reforms in Nepal and Sri Lanka

This section endeavours to cover public sector accounting reforms in Nepal and Sri Lanka since the beginning of the 1950s. In doing so, the section demonstrates what types of accounting changes have been proposed in these two countries

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Table 1
Public sector accounting reforms in Nepal and Sri Lanka.

	Nepal			Sri Lanka		
	Major reforms	Reasons for initiating reforms	Main actors promoting reforms	Major reforms	Reasons for initiating reforms	Main actors promoting reforms
1950s–1960s	Establishment of the MoF, a budget system, and cash accounting An initial attempt towards PPB	To transform the country into a modern state To track development expenditures	USAID, UN, and India	An emphasis on PPB	Influenced by the international trend	UN
1970s–1980s	Establishment of the DTCOs and attempts towards the PPB and accrual accounting	To improve financial management	World Bank, ADB, and IMF	PPB and an initial discussion on accrual accounting	To establish a socialist society To enhance the effectiveness of PPB	Politicians and bureaucrats, state institutions (i.e. PAC, COPE, and IPFDA), and UN consultants
1990s	Concerns about accounting standards and accrual accounting	To evaluate the performance of government accounting	ADB	Modified accruals	To contribute to economic development by improving the performance of PPB	International organizations (ADB, IMF, and UN), and bureaucrats
After 2000	A road map for accruals and the adoption of the cash basis IPSAS	To improve the quality of accounting information	World Bank, and professional accounting institutions, i.e. the ASB and the ICAN	ZBB, PPB, cash basis IPSAS, and accrual accounting	To tackle budget deficits To evaluate the performance of government entities effectively	State, professional accounting institutions (i.e. SDA, IPFDA, and ICASL), international organizations (i.e. ADB, and World Bank)

and the efforts that have been undertaken to implement these changes (see Table 1). The case of Nepal is presented first and then that of Sri Lanka.

5.1. *The case of Nepal*

This subsection reports the empirical findings under three headings: initiation of accounting changes; a move from accrual accounting towards the cash basis IPSAS; and the implementation of the cash basis standards.

5.1.1. *Initiation of accounting changes: emergence of the PPB and accrual accounting ideas*

In 1951, Nepal witnessed a political revolution that ended the century-long dictatorship of the *Rana* families. The country emerged onto the world political map as a new nation lacking fundamental administrative and governance measures (Gongal, 1973). In the initial years of the post-*Rana* period, Indian advisors assisted Nepal in formulating a range of state institutions, including the MoF, and institutionalizing a Westminster-style governance system (Joshi, 1973; Shrestha, 1965). However, the United Nations (UN) and the U.S. Agency for International Development (USAID) then became more influential in Nepal's administrative reforms, especially after the country joined the UN, as a member, in 1955. The UN and the USAID were particularly concerned with maintaining greater control over budgetary allocations, especially those expenditures sponsored by donors and international organizations in the form of development grants and aid. At the beginning of the 1960s, these two organizations helped Nepal to introduce cash accounting and to institutionalize it across the country in different phases, by providing training to government accountants (Adhikari & Mellemvik, 2009; Lohani, 1964).

Along with cash accounting, the UN and the USAID also stressed the importance of PPB for determining the economic feasibility of development projects funded by aid agencies and the benefits likely to accrue to the nation. In the budget speech of 1969, the Prime Minster implicitly hinted at the government's plan and willingness to introduce the PPB system (Waldman, 1970). In 1970, the MoF, in cooperation with the USAID and the UN, reoriented the budget structure as per the requirements of programme budgeting and introduced the new structure in the Ministry of Food and Agriculture (MoFA) (Pokherel, 1996). Despite all these efforts, the execution of PPB did not progress in Nepal as intended. Waldman (1970, p. 2), the USAID advisor appointed to help implement the PPB in the MoFA, explains the implementation difficulties as follows: "This new budgeting technique (PPB) was imposed upon an existing financial management and administrative system reflecting the traditional society's bureaucratic outlook characterized by an over-concern for propriety of expenditure."

Nepalese public finance reforms initiated in the 1970s were mainly intended to facilitate the implementation of PPB through improvements in financial management (Adhikari & Mellemvik, 2011). First of all, the prevailing system of centralized budget management, under which the MoF had been responsible both for authorizing and disbursing the budget to all spending units, was abandoned. The line ministries were empowered with the delegated authority to disburse the allocated budgets to their subordinate agencies and to consolidate their budget reports. The aim was to avoid delays in budget transfers to remote field officers and to facilitate a timely reporting of budget expenditures to the ministries concerned and to the Financial Comptroller General Office (FCGO), a key organ for government accounting under the MoF. Furthermore, in 1981, a new procedure for dealing with government income and expenditure was enacted, enabling the government to establish District Treasury and Controller Offices (DTCOs), under the auspices of the FCGO, in all districts. The DTCOs were tasked with transferring allocated budgets to the district offices concerned, thereby limiting the role of the ministries to the issuing of budget authorization letters permitting the DTCOs to undertake such transfers. This alteration in budgeting was expected to garner ministries the opportunity to devote their attention to budgetary performance and the results of budget expenditure. Sharma (1996) posits that this decentralization of financial administration was a factor that sparked a renewed debate on the PPB. There was a belief that the DTCOs would help restore the PPB by simplifying the budget implementation process within government entities and reinforcing budgetary control at district levels.

The literature based on neo-institutional theory has identified a link between a change in institutional environment and accounting choices within organizations (Collier, 2001; Tsamenyi et al., 2006). Notably, the decade of the 1980s also marked a turning point in Nepal's external institutional environment, thereby impacting on the ways in which reform ideas were proposed to the country. With increased development grants and loans, the World Bank, the ADB, and the IMF emerged as key resource providers, thus exerting their influence over the Nepalese public sector reforms, including the accounting and budgeting reforms. To illustrate this, the World Bank put special emphasis on the adoption of some form of accruals, predicating the latter an important supporting tool for the success of PPB (Sharma, 1996). The prevailing cash basis accounting was claimed to be inadequate in terms of both identifying the full costs of development projects that were funded by international organizations and development partners and demonstrating their results and outputs, thereby heralding an era of accrual accounting for the government of Nepal.

5.1.2. From accrual accounting towards cash basis IPSAS: a change in reform priority

One of the key concerns of new institutionalism is that organizations are required to interact with their external environment in ways perceived as acceptable for the sake of survival (Dillard et al., 2004). A similar circumstance was envisaged in the country in the late 1980s. In 1987, the growing concern about the PPB and accrual accounting resulted in the establishment of an accounting and auditing improvement project within the FCGO (Sharma, 1996). The project team consisted of five members, including a local consultant, a deputy comptroller general, a Canadian consultant, and two FCGO representatives (FCGO, 1988). In its report submitted to the MoF in 1988, the project team underscored the need for streamlining both the accounting and budgeting systems, stating: "The existing classification of accounts and the budget preparation do not lend themselves readily to program budgeting". Furthermore, the team developed an accrual accounting manual comprising new accounting classifications and reporting formats (AGO, 1989; Nemkul, 1998). In 1989, the MoF announced that it would be trying out this new accounting manual in 10 development projects funded by international aid and grants. However, the lack of resources and technical ability to understand accruals led to a loss in momentum in this trial within a few months, making it a rather ceremonial endeavour. One of our interviewees, an accountant at the FCGO, remarked:

> In the 1980s, we were even struggling to keep the records of transactions relating to revenues, deposits, and public works, let alone implement accrual accounting.

The above statement reflects the fact that Nepal's attempt to implement changes in accounting was mainly motivated by the desire to achieve legitimacy from the World Bank. In fact, the importance of achieving such external legitimacy is central to the neo-institutional based literature so as to bring resources that are available in the form of grants, loans, and aid (Ezzamel et al., 2007). However, unlike in the 1980s, the ADB seems to have been more active in disseminating accounting reform ideas in the 1990s. In the late 1990s, the bank sanctioned technical assistance (report 3580) to evaluate the performance of Nepalese government accounting and auditing. In its report, the bank emphasized the importance of adopting accounting standards and facilitating a transition towards accrual accounting in order to elevate the quality of accounting information. Commenting on the failure to implement this recommendation, an officer at the MoF stated:

> We had to drop this proposal for accounting change because the donors, mainly the ADB, did not approve aid and grants for implementing the study findings. Also, the report was not clear in terms of telling us which standards to follow and how to move towards accrual accounting.

The above statement reflects the fact that the report led to a great deal of confusion and dissension among officers at the MoF and accountants at the FCGO regarding the implementation of accounting changes. The deteriorating financial conditions of the country at the beginning of the new century, however, provided international organizations with greater scope for disseminating accounting reform ideas and exerting pressure for change (ADB, 2005). The Maoist insurgency resulted in a rise in security expenditure, thereby making the country more dependent on international resources for the pursuit of its development activities (World Bank, 2002). Consistent with the findings of Carpenter and Feroz (2001), this change in fiscal condition seemingly resulted in strengthening the potency of coercive pressure in the country. DiMaggio and Powell (1983) state that the coercive pressure is often felt as force, as persuasion, or as invitations to join in collusion. Such a form of coercion was evident in the World Bank's Country Financial Accountability Assessment (CFAA) report of 2002. In

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its report, the World Bank laid down a condition that lending to Nepal would depend upon how the country implemented the bank's requirements. The implementation of accounting standards and the development of a road map for a transition towards accrual accounting was one of the key requirements made.

In 2005, the government made an attempt to address accounting sector reform by creating a high-level public expenditure committee consisting of government officials and professional accountants. The majority of the committee members, in particular the government representatives, were in favour of improving the performance of the existing cash basis accounting, despite significant pressure from professional accountants to shift away from cash to accruals (His Majesty's Government of Nepal, 2005a). Commenting on the government's view, one accountant interviewed for this paper stated,

> Professional accountants have been struggling even to standardize accounting in private enterprises, let alone government entities. We need to provide training to our accountants to operate cash accounting in accordance with our regulations before moving to accrual.

Another government accountant, who was representing the FCGO, remarked,

> I opposed the ideas of the chairman of the Accounting Standards Board in our meetings. He proposed implementing accruals in Nepalese public entities within the next five years. These professional accountants just want to exert their influence and hold control in the public sector. We can't implement accrual accounting even in the next 20 years. In fact, 90% of our junior accountants can't even register and report the cash transactions as required by our law.

The above statement evidences that government representatives were aware of the difficulties, as well as the motives, behind the proposed accrual reforms. The statement also underpins the views of the extended version of neo-institutional theory acknowledging the relative power of organized interests and actors in the institutionalization process (Dillard et al., 2004; Ezzamel et al., 2007). In fact, this division of opinion between the professional accountants and government officers was seemingly a factor in the international organizations' decision to reconsider their reform priorities (World Bank, 2007a). Albeit some international organizations, in particular the IMF (2007), had not ruled out the possibility of an immediate move towards accruals, the World Bank and the ADB altered their position to support improvements in the existing accounting regime prior to a transition towards accrual accounting (ADB, 2005; His Majesty's Government of Nepal, 2005b). Cash accounting underpinned by international standards thus became a key reform priority for the international organizations, and the introduction of accrual accounting was left for the future.

5.1.3. *Implementation of the cash basis standards: attempts and resistance*

In its 2007 report comparing Nepalese public sector accounting and auditing standards with international standards, the World Bank presented the cash basis IPSAS as a short-term alternative to accrual accounting for Nepal. The bank's claim was that the adoption of cash basis IPSAS would help the country not only to improve the quality of its accounting information but also to elevate its capacity to implement accruals in the long-run. There was also a call for developing and implementing standards through the collective participation of the FCGO and professional accounting associations, mainly the Accounting Standards Board (ASB) and the ICAN. More interestingly, the World Bank (2007a) urged the government to send a study team to neighboring countries, particularly to Sri Lanka, to learn/mimic how to implement international public sector accounting standards (IPSASs). Commenting on the World Bank's involvement in disseminating the IPSAS ideas, an officer at the MoF stated,

> We accepted this World Bank proposal of IPSAS because it seemed to us to be a way of developing a consensus in accounting reform. All parties, i.e. international organizations, professional accountants, and government officers, seemed to be happy with the international cash standards.

In late 2007, responding to the call for the introduction of accounting standards, the MoF delegated the task of setting public sector accounting standards corresponding to the cash basis IPSAS to the ASB, while the FCGO was given the task of implementing the standards. In fact, this was the first occasion when the country witnessed the involvement of professional accountants, a key source for normative isomorphism envisaged by the neo-institutional based literature (DiMaggio & Powell, 1983), in government accounting reforms. In our interviews, an officer at the MoF emphasized why implementing the cash basis standards was so important:

> The World Bank has now proposed a grant for implementing public sector accounting standards as part of a multi-donor trust fund. This means all major donors are now supporting this project. If we reject, donor-funded projects will be adversely affected.

Interesting enough, the above statement is a clear indication of the presence of coercive pressure because any attempts to oppose the cash basis standard would have been likely to jeopardize donor funding entirely, something which accounts for 20% of total annual expenditure by the Nepalese government (FCGO, 2011). On 15th September 2009, the Nepal Public Sector Accounting Standard (NPSAS), corresponding to the cash basis IPSAS, was approved for implementation within budgetary entities (ASB, 2009). In fact, the plan was to reform the consolidated statements of the government within the next three years (i.e. by 2012) by referring to the NPSAS (Adhikari & Sharma, 2010). Although the government has reiterated its commitment to implementing the NPSAS in several recent reports, and this has been acknowledged by international organizations, a delay in implementation has raised a doubt as to whether the institutionalization of the standards will actually be successful in Nepal (ADB, 2011; GoN, 2008, 2011). Commenting on this delay, a professional accountant interviewed stated,

> It's not possible to advance accounting reforms and use standards in Nepal with the same bureaucratic mentality and attitude that was prevalent in the 1960s. There should be more of a learning attitude among government accountants.

Furthermore, it was apparent from the comments provided by our interviewees that some conflicts and power relations prevail between the higher-level officers at the MoF/FCGO and government accountants, jeopardizing the implementation of the accounting reforms. Throughout the interviews, the majority of the government accountants stated that the higher-level officers at the MoF/FCGO, who negotiate the reforms with international organizations, have created propaganda about accounting change so as to present themselves as champions of reform. One government accountant commented,

> The higher-level officers are mainly concerned with satisfying donors and ensuring benefits such as appointments in better-paid projects, international travel, and participation in seminars etc. The term IPSAS/NPSAS has become a "cash cow" at the higher level. There has never been any discussion about the IPSAS/NPSAS at the lower level.

More interestingly, government accountants were also critical of the role of international organizations in proposing reform ideas. The overall feeling was that, instead of spending time on accrual accounting and accounting standards, priority should be given to addressing the existing deficiencies in accounting practices, for instance the fact that deposits and advances are still being treated respectively as revenues and expenditures, that off-budget expenditures are yet to be tracked, and that revenue accounting is being carried out using single-entry bookkeeping, to name just a few. One government accountant remarked,

> Every donor wants to spend money in Nepal, but the problem is to spend on the right thing. What we need from international organizations at the moment is resources to train our accountants, develop an IT system, and improve existing practice. Instead, international organizations are now supporting the ASB and the ICAN to raise their capacity to implement government accounting changes, which is neither their main task nor their primary interest.

The above comment further illustrates how international organizations are employing professional accountants and their institutions to disseminate globalized accounting reform ideas in the developing world, as has been seen in other developing nations (Mir & Rahaman, 2005). Furthermore, it was observed during the interviews that several factors, including political instability, the lack of a system of reward and punishment, and inadequate salaries and other monetary benefits, among others, have led government accountants to resist rather than embrace change. The interview participants claimed that each time the government changes senior officials are also replaced. Studies in other countries have also demonstrated that it is common for reforms to come to a halt due to changes in government and institutional pressures (Hyndman & Connolly, 2011; Pollitt & Bouckaert, 2004). In the context of Nepal, this frequent reshuffling in its administration has not only stifled the pace of reform, but also discouraged top-level officers from taking legal action again their junior colleagues for any forms of non-compliance. One government accountant commented,

> The officers know that they will not remain in the same office/position for a long period of time. They do not want to escalate any sort of conflict with their junior colleagues by imposing fines and punishment.

This statement implies that government accountants are not concerned about their underperformance and non-compliance, reflecting a lack of discipline in Nepalese public finance. However, it was observed during our interviews that government accountants also lack motivation to implement reforms and update their existing accounting knowledge due to a lack of transparency in the reward system. One government accountant explained,

> Our promotion is not based on our performance, but our proximity to the higher-level officers. I do not care about the instructions that I receive from the higher levels.

Furthermore, low salaries and benefits, including retirement benefits and pensions, have also become a factor discouraging government accountants from concentrating on their work and updating their knowledge of accounting and ongoing reforms. During the interviews, the majority of the government accountants alluded to the fact that too much has been expected from them without any additional benefits and opportunities being provided. This has also had an adverse effect on the promotion of professionalism in the public sector. An accountant at the FCGO remarked,

> Given the salary and benefits in the government sector, which are inadequate even for basic survival, it is impossible to appoint and retain chartered accountants. How can we implement technical accounting reforms such as international standards in the absence of professional accountants?'

All of the above-mentioned factors indicate that implementing new accounting measures has been more of a burden on government accountants than a motivational element. Moreover, government accountants are aware of the fact that all the key players, including the higher-level officials at the MoF/FCGO, international organizations, and professional accountants, have been driven by personal motives. While the higher-level officers are motivated by personal benefits, the professional accountants are concerned with extending their influence in the public sector. In a similar vein, international organizations are focused mainly on proving their expertise in the field through the dissemination of complex reform measures. Ensuring resources, appearance, and legitimacy has been the key concerns of these institutional actors, as the new institutionalism suggests (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). The situation in the country raises doubts as to whether the cash basis IPSAS will be implemented by the Nepalese government or simply remain as rhetoric like other reform proposals such as accrual accounting and the PPB.

5.2. The case of Sri Lanka

This subsection presents the empirical findings for Sri Lanka under three headings: budgetary reforms in the post-independence era; concerns regarding accrual accounting and the cash basis accounting standard; and the move from the cash basis accounting standard towards the accrual basis.

5.2.1. Budgetary reforms in the post-independence era: the evolution of accrual accounting ideas

Sri Lanka was a British colony until it gained political independence in 1948. The colonial legacy has had a significant impact on the development of the accounting profession in the country (Perera, 1975). There is evidence that the colonial administrators employed professional accountants from England and Wales in the public sector and many native Sri Lankans pursued professional accounting courses in England. In fact, the first president of the Institute of Chartered Accountants of Sri Lanka (ICASL) was among the first group of Sri Lankans to return from England after completing his professional accounting education in the 1920s. Cash accounting was introduced during the colonial era (Balasingham, 1964) and there was a well-established treasury office (Warnapala, 1974) that had handled all accounting activities since the 19th century.

Thirulinganathan (1976) states that implementing the PPB became a key agenda of public finance reform in the country in the post-independence era. The notion of PPB evolved after high-level officers from the MoF attended a series of UN seminars about the importance of PPB and its implementation in the developing world, in the late 1950s and at the beginning of the 1960s. These officers seemed to be convinced by the potential benefits of PPB. The neo-institutional based literature has identified bureaucrats as an important source of mimetic isomorphism (Hassan, 2005; Hyndman & Connolly, 2011; Irvine, 2011). Consistent with the findings of these studies, the top-level administrators at the MoF also viewed the PPB as what was required to be a modern and effective public administration and advocated the need for PPB in the country (Kuruppu, 2010). In support of these administrators, the MoF launched continuous training programmes on PPB for junior public administrators and clerical staff involved in the preparation of budget estimates for ministries and other government institutions. Furthermore, a series of three public lectures on the PPB given by the ICASL and articles published by a number of local scholars also contributed to elevating the popularity of PPB during the 1960s (Dean, 1986).

In 1970, the United Front, a political alliance headed by the Sri Lankan Freedom Party (SLFP), secured a two-thirds majority in the House of Representatives. In their government's first budget speech, they emphasized the necessity of establishing an affluent socialist society (Athukorala & Jayasuriya, 1994). Notably, the alliance envisaged the PPB as a means of achieving its economic goals and fulfilling its social aspirations. In 1971, the budget estimates of three ministries, those for education, health, and finance, were drafted along the lines of the PPB, marking the beginning of an era of PPB in the country (Treasury, 1973). Four UN consultants were reportedly involved in providing technical support to the MoF in its efforts to adopt the PPB approach. During our interviews, a director of the Treasury explained how staff members were trained under the auspices of the PPB project:

> There was a proper training programme in order to equip the staff members with the necessary skills to use this budgeting model. Not only were the administrative staff provided this opportunity, but also employees such as budget assistants were able to attend the training programmes.

The Secretary of the MoF personally encouraged the administrators of the other ministries to embrace the new budgeting model. Thirulinganathan (1976) argues that both the bureaucracy and the country's politicians had a positive attitude towards the PPB experiment. In fact, this broad support and participation by internal stakeholders is credited with transforming the entire budget of the nation in accordance with PPB in 1974. Despite a change in political and economic ideology, from establishing a socialist society to promoting economic liberalization, over the course of time, the PPB has remained in practice in the country, although it was briefly replaced by zero-based budgeting (ZBB) for three years (2003–2006), on the assumption that it would help the country tackle its increasing budget deficits. The transition to ZBB was unsuccessful, however, in the sense that its underlying ideas were not understood, and in the end it was not implemented (Kuruppu, 2010). One assistant director of the Treasury commented thus on the failure of ZBB:

> Our administrators had no understanding of how to use the principles of ZBB to estimate the government's expenditure. There was no discussion concerning this issue, but in the end the concept was introduced. We believe that the US consultants promoted this idea and the Secretary of the MoF accepted and implemented it.

As has been observed in other jurisdictions (Arnaboldi & Lapsley, 2009; Pollanen & Loiselle-Lapointe, 2012), this effort to replace the PPB by the ZBB could be explained as the government's desire to mimic the presumed better budgeting practices from the West, in its quest for resources. Notably, this change in the budgeting model occurred in the country in isolation from accounting and other public finance reforms. As a result, discussions on the incompatibility of the PPB approach and cash-based accounting emerged in the late 1970s and at the beginning of the 1980s. Two parliamentary committees, namely the Public Accountant Committee (PAC) and the Committee on Public Enterprises (COPE), responsible for the oversight of public resources and the activities of government-owned business entities, respectively, had expressed their belief in the importance of linking budgeting with accounting so as to reinforce the accountability mechanism within the public sector (PAC, 1981). Furthermore, the members of the COPE had the opportunity to visit countries including Costa Rica, France, India, the UK, the USA, and Yugoslavia to study the governance of state institutions and government business enterprises there (COPE, 1983). Upon returning from these study visits, the committee members recommended that the government linked the PPB with accrual accounting, initiating a professional discussion on accrual accounting that continues today. Early attempts for accounting and budgeting reforms in Sri Lanka therefore demonstrate the involvement of an iterative learning process by bureaucrats, including the members of parliament committees, and normative transformation of accounting and budgeting ideas within the country from external environment sources.

5.2.2. Concerns on accrual accounting and the cash basis accounting standards: professional arguments and the involvement of international organizations

Carpenter and Feroz (2001) argue that the establishment of new professional accounting institutions tends to elevate the potency of normative pressures. The situation of the country in the 1980s in fact reinforced this assertion. In 1980, the Sri Lankan Accountants' Service Association organized a seminar in order to inaugurate a separate professional body for public sector accountants, namely the Institute of Public Finance and Development Accountancy (IPFDA). The then Auditor General of the island, Wijayasuriya, the keynote speaker at the ceremony, delivered a lecture on public auditing and financial management in the government sector. In his lecture, he expressed skepticism over the use of cash accounting together with the PPB, stating that cash accounting would not facilitate the analysis of inefficiency and wastage. To reinforce his argument for accruals, Wijayasuriya (1997a, p. 10) pointed to the UN's guidelines on accounting, stating, "Accounting systems must be related to the budget classification. The budgeting and accounting functions are the complementary elements of financial management and must be closely integrated". In fact, this appears to be the first time that the necessity of adopting accrual accounting was made public in the country.

There is evidence of the involvement of international organizations, mainly the ADB, the IMF and the UN, in the dissemination and promotion of accounting changes, including the adoption of accruals, in the country. In 1995, the ADB approved the provision of financial and technical assistance to the accounting modernization project that aimed to computerize the existing accounting systems within ministries and departments. Furthermore, in 1996, an IMF delegation visited the country to help the government to find effective measures of public expenditure management (Thomas, 1998). A year later, one of the members of the delegation, W. Thomas, was appointed as the IMF residential budget advisor to the MoF. Thomas was critical of cash basis accounting on the grounds of its inadequacy in providing inputs to management decision making. In a seminar on budgetary management and expenditure control, organized for high ranking administrators of the Treasury and the MoF in 1997, he encouraged the government to adopt modified accrual accounting, which he argued would provide accurate information about the cost of government activities. Similarly, the UN technical advisor for the country implicitly supported the idea of modified accrual accounting, emphasizing that such a move would help the government to implement the democratic requirements of transparency and accountability to its citizens (Benett, 1998). Notably, this involvement of consultants coupled with the support of bureaucrats further contributed to elevating discussions on modified accruals in the country.

In the late 1990s, the former Auditor General, Wijayasuriya, again led professional debates on accounting changes, favouring the introduction of accrual accounting. His main argument was that the government financial control system had become incapable of contributing to economic development (Wijayasuriya, 1997a,b). He called for the redesigning of the financial and accounting standards so as to mirror a fair view of resource utilization in the government sector. Similarly, Sivagananasuntharam (1997), a leading member of the IPFDA, expressed a more or less similar view emphasizing the imperative of accrual accounting at the central government level. His main argument was that cash-based financial statements exhibit only a fragmentary list of cash receipts and disbursements, excluding, among other things, the government's assets and liabilities and the impact of the government's contemporary financial commitments on future generations. The importance of accrual accounting was predicated on the assumption that it would help avoid such deficiencies inherent in cash accounting.

Interestingly enough, this enduring discussion on accounting change, in particular that on the adoption of accrual accounting, can be credited with promoting accounting education, thereby increasing the potency of normative isomorphism in the country (General Treasury, 2001). In 2001, a management training unit was established within the State Accounts Department (SDA), a key unit for government accounting under the Ministry of Finance and Planning, to help administrators improve their accounting knowledge. In addition, administrative officers were provided with local and international training opportunities, as well as the opportunity to pursue higher degrees in accounting at both national and international institutions (SAD, 2003). Commenting on these skill-enhancement programs, an officer interviewed for this research stated,

> We are now able to attend international workshops, seminars, and training programmes in accounting. We can also enrol in postgraduate education at both national and international universities.

Kuruppu (2010) states that these ongoing debates on accruals, along with better opportunities for administrators, have created an environment conducive to achieving accounting change at the central level. There is a general acceptance within the country that the accounting system should be able to generate the comprehensive information necessary for evaluating the performance of each department and ministry (ADB, 2002; World Bank, 2003). In an attempt to address the desire for accounting change, the SAD announced in 2003 that it would prepare the general purpose financial statements of the central government for the year 2002 adhering to the requirements laid down in the cash basis IPSAS. During our interviews, a deputy director of the SAD, justifying the adoption of the cash basis IPSAS, stated,

> This is a step towards applying international standards as suggested by international institutions.

The World Bank (2007b), in its report comparing public sector accounting standards in Sri Lanka with international standards, approved the consolidated financial statements of 2002 as being in accordance with the cash basis IPSAS. This development can be seen as the country's first attempt to deviate from the conventional format of preparing financial statements that it had followed since its independence (SAD, 2003).

5.2.3. From the cash basis accounting standard to accrual accounting: attempts and resistance

Despite the enduring debates on accrual accounting, the ADB launched public expenditure management project of 2002 appeared to be the main driving force behind the initiation of accounting reforms in Sri Lanka's central government. The project was primarily set up to improve the planning and budgeting process in the government through improvements in IT and the introduction of long-term budgeting (referred to as the medium-term expenditure framework). However, central to the recommendations made by the project team was the implementation of public sector accounting standards corresponding to the cash basis IPSAS (General Treasury, 2000, 2001). An officer from the Treasury conceded this in our interviews:

> International institutions and donor countries have demonstrated to us the requirement for comprehensive financial statements. This has been a motivational factor in our consideration of the cash basis IPSAS.

Our interviews demonstrated that a consultant from the ADB, Richard Walse, had taken a significant role in implement cash basis IPSAS in the country. He was involved in altering the format of the general-purpose financial statements so as to make them compatible with the IPSAS requirements. In addition, other consultants from a variety of international organizations, including the World Bank, were also involved in promoting the adoption of the cash basis standards by participating in lectures and discussions held by the SAD. The bulk of literature on public sector accounting has demonstrated the role of consultants in articulating and implementing accrual accounting and accounting standards in different jurisdictions (Christensen, 2005; Pollanen & Loiselle-Lapointe, 2012). In the case of Sri Lanka, the participation of consultants in accounting reforms, mainly the IPSAS reforms, can be seen as part of the country's interaction with its external environment for ensuring resources, as the literature on new institutionalism suggests (DiMaggio & Powell, 1983). An administrator of the SAD commented on this,

> Our new Director General organized lectures during lunch hours to keep us informed about accounting reforms that have been implemented in other countries. Foreign consultants representing international organizations were invited to deliver these lectures. Most underscored the importance of articulating financial statements using international accounting standards.

Interestingly, not all of the administrators interviewed agreed that this move towards the cash basis IPSAS was driven by coercive pressure from international organizations. Some administrators alluded to their own willingness and expertise as a primary motivational factor between the adoption of new reporting formats compatible with the IPSAS. However, they did not deny the fact that the support of international organizations had been crucial to their implementation of IPSAS within the country indicating the situation of resource dependency (Carpenter & Feroz, 2001). Commenting on international support, the deputy director of the SAD stated,

> Our changes are often suggested by international institutions. Changes supported by international organizations are important for getting financial support.

Despite compliance with the cash basis IPSAS, interviewees commented that the idea of modified accruals has not been completely relinquished by the SAD. There have been continued attempts, particularly since 2005, to alter the reporting format so as to disclose information about financial assets and liabilities and other noncurrent assets, which are now part of accounting notes, in the statements of financial position and performance, although the latter is published only for internal purposes (SAD, 2007, 2008). The ADB has provided the funds to execute this plan through its financial management reform project. A deputy director remarked on the progress of the accrual accounting project,

> The proposal for adopting accrual accounting is still in the discussion stage. As yet, assets are not specifically identified and valued.

Professional accountants (Carpenter & Feroz, 2001) and university graduates (DiMaggio & Powell, 1983) contribute to the appearance of normative pressure. The existence of this form of pressure has seemingly rendered a role in the process of moving towards the accrual basis IPSASs. The committee, appointed by the ICASL to articulate accrual-based public sector accounting standards, consists of both the chartered accountants and university staff members. The country's AG is the chairman of this committee. Similarly, the professional accountant of the Treasury has also been included into this committee. The World Bank has offered the committee financial support to initiate a project to develop accounting standards corresponding to the accrual basis IPSAS. The ICASL has already drafted four standards based on IPSASs 1, 2, 3, and 5 and presented them to the government for mandatory/voluntary adoption by public entities.

Interesting enough, despite the commitment of the SAD and the efforts of the ICASL, a large number of administrators, however, seem to be reluctant to accept the idea of accrual accounting at the central level. One senior administrator of the Treasury questioned the potential benefits of accrual accounting as follows:

> I am not in favour of accrual accounting. I am of the view that accounting information is not used to make decisions in the government sector. Introducing the accrual basis of accounting would be no more than a waste of resources.

Furthermore, it was evident that a number of factors, including ambiguity in asset identification and valuation, frequent changes in administration, and the absence of political support, among others, have not only made the adoption of accrual accounting a challenging endeavor, but also encouraged the administrators to resist the change. The interviewees claimed that, although the regulations required the ministries and departments to maintain a register for fixed assets, it had not actually been kept up-to-date. The Director General of the SAD commented,

> We had to make numerous efforts and provide intensive training to our administrators so that they could maintain the fixed assets register but sometimes after this they are transferred to other departments or they leave for new jobs.

In addition, as has been observed in other counties that have embraced accruals (see Arnaboldi & Lapsley, 2009), there seems to be ambiguity over what kinds of assets should be included in the financial statements and the valuation methods that should be adopted. This has meant that administrators and public sector accountants have struggled to identify fixed assets, making them reluctant rather than enthusiastic to implement accrual accounting changes. Commenting on the challenge of segregating fixed assets, a director of the SAD stated,

> If we want to adopt full accrual accounting, we have to value all our assets. We do not know how to account for heritage assets and the infrastructure.

More interestingly, the administrators were also critical of the role of the government and politicians in introducing accrual accounting reform. Despite propagating accrual accounting at the central level, interviewees stated, the SAD has not shown any interest in changing the financial regulations to support the use of accruals. As shown in other countries (Christiaens & Rommel, 2008; Hyndman & Connolly, 2011; Paulsson, 2006), this clearly indicates the unwillingness of politicians to adopt accrual accounting that could require them to delegate their financial decision-making authority to bureaucrats and professionals. One administrator remarked,

> Our political executives do not understand how accounting information could help avoid the waste of resources. Without political leadership and support we can't bring about any accounting changes.

The abovementioned statement demonstrates that the adoption of the accrual basis of accounting in the country has become more of a bureaucratic effort and lacks political support and leadership. The normative pressure exerted by professional accountants and bureaucrats and the financial support of international organizations have led the politicians and government to express their willingness to adopt accrual accounting. A large number of administrators seem to be skeptical of this endeavour however, and are less enthusiastic about actually carrying out the accrual project. This has resulted in a great deal of uncertainty as to whether the country will be able to address these ambiguities and implement accrual principles throughout the government accounts.

6. Comparison and discussion of public sector accounting reforms in Nepal and Sri Lanka

Drawing on the ideas of neo-institutionalism, this study has sought to explore the dissemination and implementation of public sector accounting reforms in Nepal and Sri Lanka, two LDCs located in South Asia, one with a colonial history and the other isolated until the beginning of the 1950s. As has been shown to be the case in other colonial nations (Rahaman & Lawrence, 2001; Uddin et al., 2011), Sri Lanka inherited a Westminster-style government, including accounting norms and practices, from Britain much earlier than corresponding implementations in Nepal. In fact, professional accountants from Britain were deployed in the Sri Lankan public sector, mainly in the agricultural and transport sectors, for the purpose of training native accounting personnel as early as the 19th century (Perera, 1975; Wijewardena & Yapa, 1998). The cash basis of accounting was in practice and accounting institutions, including the Accountancy Board that qualifies registered accountants, were institutionalized prior to the island becoming independent (Perera, 1975). In contrast, Nepal established state institutions such as ministries and departments and acquired administrative measures such as cash accounting and budgeting only in the 1950s and 1960s, through its neighbor India and development partners (i.e. the UN and the USAID). Although both countries have been exposed to similar accounting and budgeting reform ideas, propagated by international organizations and aid agencies, since the 1970s, their diverse historical backgrounds, in particular the absence/presence of a colonial legacy, have led to substantial differences in how these reform ideas have penetrated the two countries, as well as the participation of government accountants and bureaucrats in the reform process.

One contribution of the paper is that it extends the literature on public sector accounting by elucidating how international organizations, through their lending activities, have influenced government accounting reforms in LDCs, plunging the latter into an era of neo-colonialism. The empirical evidence presented in this study has clearly demonstrated that both Nepal and Sri Lanka embarked on their public sector accounting reforms at more or less the same time, following the international trend. In the 1970s and 1980s, reform attempts in both countries were focused on adopting the PPB, although the countries had different motives for their efforts. Notably, the introduction of PPB in developing nations was the key financial reform agenda of international organizations during the 1970s and 1980s (Allen, 2009). While the main aim of adopting the PPB in Nepal was to improve the effectiveness of development budgets funded primarily by foreign grants and aid, Sri Lanka was more concerned with establishing a socialist society. In this regard, the adoption of PPB was envisaged as a means of strengthening the power of centre government (Chwastiak, 2001). In line with the ideas of neo-institutional theory (Covaleski & Dirsmith, 1988; DiMaggio & Powell, 1983; Meyer & Rowan, 1977), the notion of PPB served as a myth of rationality in both countries in their quest for legitimacy.

More interestingly, the ideas of accrual accounting were also considered in both countries at the same time, i.e. at the beginning of the 1980s. In fact, the IFAC (1996) had started discussing the need for accrual accounting by central governments in the 1980s, making the accrual basis of accounting a global agenda. International organizations, mainly the World Bank, the ADB and the IMF, advocated for accrual accounting in the central governments of both countries during the 1990s and at the beginning of the new century, based on the presumption that it would help improve the quality of accounting by tracking the full costs of government activities, and particularly the costs of facilitating development projects in the case of Nepal. Although it seems that both countries started on the journey to accrual accounting in order to satisfy international organizations, there does seem to be a rift between them in terms of how they have disseminated/discussed the reform ideas and how they have attempted to implement the reforms in their public sectors.

Next, this paper demonstrates how the existence of different isomorphic pressures, along with variations in intra-organizational structures impact upon the institutionalization of public sector accounting reforms (Dillard et al., 2004; Ezzamel et al., 2007). In the context of Nepal, discussions on public sector accounting reform ideas have historically been confined to two groups, higher-level officers at the FCGO/MoF and international organizations, although this trend seems to have changed in recent years as international organizations have increasingly begun to use professional accountants to disseminate their reform ideas in the country. The higher-level Nepalese officers have seemingly been motivated by a desire to introduce themselves as champions of reform so as to gain personal benefits. The momentum for the proposed accounting changes is therefore argued to be externally driven, with no involvement from lower-level officers at the MoF/FCGO and no discussion being held with government accountants. Institutional pressures of varying degree are also believed to have influenced this momentum for accounting change. As stated by DiMaggio and Powell (1983), an element of mimetic pressure is evident as the World Bank, in particular, through its studies and reports on Nepalese public finance, has recommended the adoption of cash basis IPSAS by providing examples of other South Asian countries that have done so. The adoption of the cash basis IPSAS has been an opportunity for higher level officers to emulate the accounting practice prevailing in the neighboring countries, particularly at the time when there was a great deal of confusion among them regarding the alternatives of prevailing cash accounting. Furthermore, there was also a call for collective participation by government officers and professional accountants in the reform process, reinforcing the strength of normative pressure for reform, as stated in the new institutional based literature (DiMaggio & Powell, 1983).

However, coercive pressure, which is often linked to the external environment surrounding an organization (Frumkin & Galaskiewicz, 2004), seems to be much stronger in driving Nepalese public sector accounting reform than either the mimetic or normative forces. The country's dependency on international organizations for resources since the 1980s represented a significant change in the potency of isomorphic mechanisms giving rise to the potency of coercive pressure for government accounting changes (Adhikari & Mellemvik, 2011). This study has clearly demonstrated that, on many occasions, public sector accounting reform has been central to the lending conditions of the World Bank, leaving the country with no alternative but to accept the reform proposals. This is seen, for instance, in the case of cash basis IPSAS (World Bank, 2002, 2010). DiMaggio and Powell (1983) argue that reforms imposed by coercive pressures tend to be of a rather ceremonial nature. This seems to apply to the case of Nepal as the country seems to be mostly involved in "window dressing" or the "symbolic acceptance of accrual accounting", formulating committees and facilitating studies in cooperation with international organizations. In line with Oliver (1991), there seems to be a situation of decoupling behind a facade of acquiescence. On the whole, public sector accounting reforms diffused by international organizations have advanced no further than the proposal stage, and have either waned during or even before the trial, or have been superseded by other reform ideas; for instance accrual accounting was superseded by the cash basis IPSAS. As previous research has revealed (Neu & Ocampo, 2007; Neu et al., 2009; Uddin et al., 2011), public sector accounting techniques have become a means of masking, legitimizing, and justifying the relationship between a country and international organizations. Furthermore, factors such as administrative instability led by frequent changes of government employees, a communication gap between the higher and lower-level officers, and the absence of a system of reward and punishment, have resulted in greater criticism among government accountants towards higher-level officers, professional accountants, and international organizations, leading them to resist rather than embrace the proposed changes. A culture of non-compliance has developed among government accountants who question the success of any form of public sector accounting reform in the Nepalese context.

Perera (1975) states that the existing accounting practices of any nation are a product of its accounting education and the training opportunities provided. In fact, this fits well in the context of Sri Lanka. Unlike the case of Nepal, it is evident that the colonial experience laid down the foundation for the development of both accounting practice and the accounting profession in the country. Sri Lankan bureaucrats and accountants were apparently more aware of public sector accounting reform ideas, and tended to embrace international practices such as the PPB, ZBB, and accrual accounting more than their Nepalese counterparts. Many of them had had the opportunity to receive education and attend international training and workshops concerned with accounting and budgeting, including the workshops organized by the UN in the 1950s and 1960s. This education and awareness has allowed the MoF to launch a continuous training programme. Meanwhile, the ICASL organized a series of lectures on the PPB before its adoption was announced by the government–efforts that were not visible in Nepal.

In the context of Sri Lanka, the ability of conventional cash accounting to portray a true and fair picture of the government's financial position was challenged by administrators and parliamentary committees as early as the 1980s. Both the parliamentary committees, i.e. the PAC and the COPE, discussed how to interlink accounting and budgeting systems and the adoption of accruals was put forward as an alternative to the prevailing cash basis accounting. Furthermore, the establishment of the IPFDA led to renewed discussions about accrual accounting, which was advocated as crucial to avoid inefficiency and the wastage of public resources. Indeed, increasing support from administrators, international consultants, and professional accountants for accrual accounting has created a conducive environment for accounting change in the country. The SAD has already addressed this proposal to streamline accounting by establishing a management training unit and preparing consolidated financial statements that adhere to the formats and requirements laid down in the cash basis IPSAS. The ICASL has produced some public sector accounting standards corresponding to the accrual basis IPSASs and encouraged public entities to use them voluntarily.

The country's reliance on international support for financing reform projects, along with the involvement of international consultants, means that it is not easy to deny the existence of coercive pressure in the discussion of Sri Lankan public sector accounting reforms. Carpenter and Feroz (2001) have demonstrated how a situation of fiscal stress exerts a coercive pressure for change. The adoption and replacement of the ZBB is one illustration of how the country was forced to embrace a budgeting model so as to sustain international resources, with a disregard for the local context and the competence of the administrators. However, as stated by Covaleski and Dirsmith (1988), the coercive pressure has been softened by the prevalence of education and training within government officials and the existence of accounting institutions since the pre-independence era. Unlike the case of Nepal, the momentum for reform in Sri Lanka does therefore seem to be more internally driven and promoted by mimetic and normative institutional pressures. The existence of a well-trained bureaucracy and the participation of international consultants, a driving force for mimetic isomorphism (DiMaggio & Powell, 1983), as well as the involvement of professional accountants, a key source of normative isomorphism (Carpenter & Feroz, 2001; Irvine, 2008), have contributed towards the implementation of the PPB and the cash basis IPSAS in the country and have initiated a move towards accrual accounting. Meanwhile, all such reform initiatives in Nepal have either failed to be implemented or are still in the process of being implemented. In contrast to Sri Lanka, the case of Nepal shows a country that has only recently seen professional accountants and bureaucrats become involved in instigating public sector accounting reform.

7. Conclusions

This study has demonstrated that public sector accounting reforms in Nepal and Sri Lanka have been much affected by overseas developments since the 1970s, reflecting the trends for NPM and NPFM. In the context of Nepal, international organizations, which are the main carriers of reform ideas, the higher-level officers who have accepted these reform ideas, and the professional accountants who are promoting the ideas, have all been driven by their own self-motives and their own legitimation needs. Reforms are therefore mainly a matter of talk or part of a routine schedule, and have been confined to the proposal stage. In the case of Sri Lanka, meanwhile, the presence of normative and mimetic factors such as professionalism, education, and awareness of international trends, created through seminars and training, have produced some of the public sector accounting reform ideas, for instance PPB and the cash basis IPSAS. This finding is in line with the argument of Miller and Napier (1993), who express the view that present accounting practices are a product of distinct incidents and processes. This comparative study of Nepal and Sri Lanka has clearly illustrated how the reform contexts within LDCs, including the level of awareness among stakeholders and their participation in the reform process, differ due to the specific historical roots of the countries. We therefore argue that it is important for international organizations, policy makers, and professional accountants to at least take a glance at the specific context of LDCs and their stage of development, prior to disseminating a "one-size-fits-all" approach to accounting reform. Reforms initiated without acknowledging the context of the LDCs may serve more as a symbol of legitimacy and a decoupling of actual practice from the public rhetoric, rather than leading to any improvements in public sector management and service delivery.

At the same time, this study has evidenced resistance to implementing reforms, especially the accrual accounting reforms, at the lower levels in both countries. In this respect, the study underpins the view that accrual accounting reforms should be part of a broader public sector reform, and it should be ensured that the countries meet a series of preconditions prior to embarking on a move towards accrual accounting (Hepworth, 2003; IFAC, 2011). It is unlikely that accrual accounting will be implemented successfully, particularly in the context of developing countries, without recognition of the significance of these conditions. This can also be the reason why the adoption of accrual accounting has not been successful in both Nepal and Sri Lanka despite the efforts since the 1980s. More importantly, the adoption of accrual accounting has become a controversial reform even in developed countries and the bulk of the existing literature has questioned the relevance of accrual accounting in public organizations, which have different contexts and objectives (Carlin, 2005; Guthrie, 1998; Hepworth, 2003; Hyndman & Connolly, 2011; Paulsson, 2006). In this regard, this study raises a question as to whether the adoption of reforms such as accrual accounting and the cash based IPSAS is, in fact, an appropriate alternative for LDCs to improve their governance and accountability, as international organizations and professional accounting institutions propagate (IFAC, 2010; World Bank, 2010). It has been claimed that many requirements of the cash basis IPSAS, including the preparation of whole of government accounts (WGA) have not proved practical in many LDCs, signaling a need for the identification of good accounting practices for LDCs (Parry & Wynne, 2009). Last but not least, given the variations in reform implementation in Nepal and Sri Lanka, this paper underlines the need for comparative studies between other developing countries so as to further our understanding of how public sector accounting reforms are being shaped in other similar contexts, and the role played by international organizations, consultants, professional accountants, and bureaucrats in achieving public sector accounting reform.

Appendix A. Distribution of interviewees

	Number of visits	Number of respondents and interviewees	Types of informants				Repeated interviews
			Professional accountants	Govt. officers/budget officers	Govt. accountants	Others	
Nepal	4 (2007–2012)	27 respondents and 30 interviews	6	8	13	0	03
Sri Lanka	4 (2006–2009)	19respondents and 21 interviews	03	08	07	01	02

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