International Public Sector Accounting Standards (IPSASs) in Sri Lanka: What Lessons Can Nepal Learn?

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The Cash Basis IPSAS (NPSAS) in Nepal

The Financial Comptroller General Office (FCGO) is in the process of preparing financial statements of all central level agencies using a set of Nepal Public Sector Accounting Standard (NPSAS), which corresponds to the Cash Basis International Public Sector Accounting Standard (IPSAS). Various reports published by the FCGO, the PEFA Secretariat and international organisations give an impression that the adoption of the NPSAS would herald a landmark success in the public sector of Nepal in terms of improving expenditure management and accountability. To a large extent these government agencies are echoing the voices of professional accountants and international organisations, mainly the World Bank and the International Monetary Fund (IMF), who are the main propagators and sponsors of IPSASs in developing countries.

Research shows that international organisations have their own self-interest in fabricating the success of IPSASs in developing countries (Adhikari and Jayasinghe, 2017; Adhikari et al., 2013). IPSASs have become an important means for these organisations through which to secure jobs for their consultants and prove their expertise in facilitating public finance reforms (Adhikari et al., 2015). Their performance is measured on the basis of grants and loans they executed to developing countries. The drives for public sector accounting reforms in developing countries are often not need but the availability of international funding (Hepworth, 2015). These organisations are not concerned about the consequences of reforms. For instance, in many African countries, attempts of these international organisations to promote IPSASs have resulted in increasing financial mayhems, corruption and patronage politics instead of making any significant impact on governance improvements and accountability (Bakre et al., 2017).

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Successful implementation of public sector accounting reforms in developing countries would very much rely on education and training of government accountants, auditors and administrators. These actors who are responsible in implementing reforms should be capable of understanding the very essence of IPSASs, mainly their underlying objectives and requirements. In many countries, a transition towards IPSASs has turned out to be an expensive endeavour, as they had to invest significant resources in recruiting professional accountants and consultants, and arranging IT infrastructure. Education and training of government accountants is an important issue in Nepal, as compared to other South Asian countries, when it comes to executing reforms. Accounting education being offered in universities does not cover courses in IFRSs and IPSASs. A large number of accountants recruited through the Public Service Commission do not have their first degree in accounting and auditing. The 'Revenue Administration Training Centre' (RATC) and the 'Staff College' rarely organise any trainings on the technical aspects of accounting standards. Offering one or two workshops on IPSASs by hiring consultants and professional accountants would simply not raise both the competence and confidence of government accountants in handling technical accounting reforms such the Cash Basis IPSAS (NPSAS). Expecting the enforcement of reforms from the existing cadre of accountants, mainly bookkeepers, is therefore unrealistic.

Implementing public sector accounting reforms such as the Cash Basis IPSAS and accrual accounting require the government to change the recruitment, training and professional development programmes of government accountants. For instance, accountants and administrators at a large number of central level agencies in which the IPSAS reporting have been adopted are unaware of the ongoing review on the Cash Basis IPSAS undertaken by the International Public Sector Accounting Standards Board (IPSASB). In fact, the version of the IPSAS being implemented in central level agencies has been claimed to be outdated and impractical. The IPSASB has acknowledged that certain requirements of the Cash Basis IPSAS relating to consolidation, third party payments and external assistance have proved to be unrealistic in the context of developing countries. In the revised version of the Cash Basis IPSAS many of these ambiguous requirements have been relocated from part 1 to part 2, as an encouragement. The revised version of the Cash Basis IPSAS would come into force from 2019.

In the following section, we discuss how the education and training of accountants and administrations would make a difference in implementing public sector accounting reforms drawing examples from Sri Lanka. Sri Lanka is highly appreciated in South Asia for its success in implementing the Cash Basis IPSAS and undertaking a step towards the accrual basis of accounting. In its gap analysis, the World Bank (2007a) has recommended Nepal to send delegates to Sri Lanka so as to learn different aspects of implementing the Cash Basis IPSAS. A notable aspect of public sector accounting reforms taking place in Sri Lanka is perhaps the active role that government accountants, auditors and administrators have played in the process of initiating reforms. Such is largely absent in Nepal in that the IPSAS reforms are primarily driven by the initiatives of the World Bank and other donor agencies.

Bureaucratic Leadership in Executing Public Sector Accounting Reforms in Sri Lanka

Sri Lankan parliament, as in Nepal, exercises full control over public finance based on constitutional provisions and has empowered Public Account Committee (PAC) and Committee on Public Enterprises (COPE) to scrutinise day-to-day and extraordinary activities in ministries, departments and government corporations. Both committees were convinced of the need for accrual accounting in the early 1980s. In March 1980, the country's 'Accountants Service Association' organised a seminar with a view to establishing a separate professional body for public sector accountants. The seminar paved the way for the formulation of an independent 'Institute for Public Finance and Development Accountancy (IPFDA)' for all government sector accountants and Treasury's administrators.

By the late 1990s, the IPFDA initiated a wave of discussions highlighting the limitations of cash accounting in achieving economic growth. For instance, Mr. Sivagnanasuntharam, the then Secretary of the IPFDA, argued that government's activities would have consequences for future generation and that the government should be made responsible for discharging its long-term accountability. He particularly emphasised the failure of cash accounting to report long-term liabilities and urged the government to instigate a move towards the accrual basis of accounting (Sivagnanasuntharam, 1997; 1998). In 2001, a professional accountant serving as a member of the IPFDA was appointed as the Director General (DG) of the State Account Department (SAD). The new DG emphasised capacity development of government accountants and administrators. The ‘Management Training Unit (MTU)’ was therefore established with a view to promoting education and trainings of government accountants and administrators on the technical aspects of accounting. Some of the accountants and administrative officers were offered scholarships to pursue post-graduate diplomas and master degrees in public sector accounting in universities in Sri Lanka and abroad. Several experience-sharing tours were organised providing public administrators and accountants the opportunity to observe public sector accounting reforms in developed countries, mainly in New Zealand and Australia. Negotiations and collaboration with international organisation such as the World Bank were mainly focused on securing funding to facilitate such educational programmes and trainings of government accountants and administrators.

In 2003, the SAD articulated the central government’s general purpose financial statements for the year 2002 in accordance with the Cash Basis IPSAS. The Cash Basis IPSAS was presented as an initial step in making a successful transition towards accrual accounting. In its gap analysis, the World Bank (2007b) had admitted that the financial statements prepared by the SAD for the year 2002 were to a large extent consistent with the requirements, as laid down in the Cash Basis IPSAS. The country in this way appeared as a role model in South Asia and there were recommendations to Nepal and other countries to learn from Sri Lankan experience while executing the IPSAS project. Along with the adoption of IPSASs, opportunities provided to administrators and accountants to attend international workshops, seminars and conferences helped them realise the importance of managing state’s assets and liabilities for the benefits of future generations. In 2004, the SAD issued a circular to all government agencies mandating a registration of movable assets. At the same time, the Public Finance Department (PFD) issued detailed guidelines for the reporting of fixed assets and stores management. In July 2006, the Treasury sent another circular demanding departments to furnish a report on government assets as of 30th June 2006. This covered various kinds of assets, i.e. land, buildings, structures, plant and machineries, equipment, vehicles and investments made through departmental allocations. The Asian Development Bank provided funding to instigate a process of identifying and valuing assets and liabilities (SAD, 2008). Around 80% of the land and building belonging to the country are now recorded in the Treasury.

The experience of many countries show that the most difficult issue underlying the adoption of accrual accounting and IPSASs concerns with the identification of reporting entities (ACCA, 2017). The Treasury in Sri Lanka was well aware of this issue while implementing public sector accounting reforms. It was therefore made clear at the outset that the financial statements of central government should consolidate only the statements issued by ministries and departments and resources allocated to public corporations, state-owned enterprises, and statutory boards through national budget (SAD, 2003). Following the administrative reshuffling of 2005, a senior administrator and member of the ICASL became the Director General of the SAD. The department under the new leadership took further initiatives in public sector accounting by setting accounting policies and preparing the statements of financial position, performance and cash flows for the financial year ending in 2005. These financial statements were prepared following the requirements, as laid down in the Sri Lanka Public Sector Accounting Standards (SLPSASs) and IPSASs. The Institute of Chartered Accountant of Sri Lanka (ICASL) has so far pronounced 20 accrual basis SLPSASs. Sri Lanka is now committed to fully adopting the accrual basis of accounting by the year 2020. The SAD has recently drafted a policy paper on accrual accounting and handed it to the Minister of Finance. When the Cabinet of Ministers approves the policy paper, the political blessing for adopting accrual accounting would be in place.

What Lessons Nepal Can Learn from Sri Lankan Experience in Public Sector Accounting

While Sri Lanka has taken a significant step towards accrual accounting, the FCGO is still struggling to extend the piloting of the outdated version of the Cash Basis IPSAS (NPSAS) across central level agencies. The vast majority of Nepalese officers are even not aware of the fact that the Cash Basis IPSAS has been revised relocating a number of requirements relating to consolidation, external assistance and third part payments from part 1 to part 2. The Sri Lankan experience of public sector accounting reforms delineates an important role that the country’s administrators, auditors and accountants can play in realising the reforms in practice. Reforms have been driven by these internal actors following a step-by-step approach starting from the adoption of the Cash Basis IPSAS and the registration of assets prior to undertaking a transition towards accrual accounting. Sri Lanka has paid a particular focus on promoting accounting education and training of government accountants, auditors and administrators by providing them with the opportunity to purse higher education in accounting and participate in trainings/workshops abroad. International support has been mainly mobilised to capacity development of accountants, administrators and state institutions. The importance of reforms has been released at the departmental and agency levels and there is a clear vision about the process of implementing reforms and ensuring benefits to future generations.

Such a commitment to reforms at the administrative and agency levels is however largely absent in Nepal. The Cash Basis IPSAS has been mostly driven in Nepal by the interests of the World Bank and donors and there is a lack of awareness of the need for accounting standards amongst accountants and auditors. IPSAS training and education that is required to accounting staff is inadequate. They have limited opportunities to attend workshops abroad and develop conceptual and technical understanding of public sector accounting reforms such as IPSASs and accrual accounting. Considering the experience of Sri Lanka, what is important for Nepal at the moment is to pay more attention to capacity development of government accountants, auditors and state institutions such as the FCGO. The adoption of the NPSAS would not lead to any improvement in accounting practice without enhancing the technical competency and capacity of these agents and agencies.

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