THE DIFFUSION OF NEW PUBLIC FINANCIAL MANAGEMENT INNOVATION IN DEVELOPING COUNTRIES: EVIDENCE FROM SRI LANKA

A thesis submitted in fulfilment of the requirements for the
degree of Doctor of Philosophy

THUSITHA KUMARA DISSANAYAKE

B.Com Hon (Deakin University) Australia
B.Bus Accounting (Victoria University) Australia
Ad.Dip in MA (C.I.M.A.) Sri Lanka
MAAT Sri Lanka

School of Accounting
College of Business
RMIT University

July 2017
DECLARATION

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethic procedures and guidelines have been followed.

I acknowledge the support I have received for my research through the provision of an Australian Government Research Training Program Scholarship.

Thusitha Dissanayake

July 2017
ACKNOWLEDGEMENT

This thesis would not have been possible without the support and help of many people. I am sincerely grateful to everyone whose encouragement and generous dedication of their time and energy have enabled this thesis to become a reality.

First, my profound gratitude goes to my senior supervisor, Professor Steven Dellaportas, for his guidance and supervision throughout my doctoral study. His positive attitude and confidence in my study immensely encouraged me to complete this study. He was always a great mentor who showed me much patience and kindness. Thank you for your all support, generosity with time and wisdom that made this thesis a reality. Next, I extend my gratitude to my second supervisor Associate Professor Prem Yapa. His suggestions, comments and guidance helped me through the research and the writing process. In particular, his knowledge of public sector reforms in a developing country has significantly contributed to the development of this thesis.

Second, I would like to thank all the interview participants and survey respondents from the public sector organisations in Sri Lanka. Special thanks go to Dr B.M.S. Batagoda, Deputy Secretary to the Treasury and R.A.A.K. Ranawake, Secretary to the Ministry of Local Government and Provincial Council for giving me approval to conduct interviews with public sector officials. I would like to express my sincere appreciation to the academics and my colleagues at RMIT who provided their feedback and comments with regards to the draft interview questions and survey instrument.

Third, I thank the entire academic and admin staffs in the School of Accounting at RMIT University for their extended support, encouragement, facilitation and also giving me the opportunity to teach throughout my candidature.

Finally, I am deeply grateful to my family for their unconditional love and support throughout my journey. Special thanks go to my parents and sister for their blessing and to my lovely wife for believing that I was ‘capable’.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iii</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>iv</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>ix</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xi</td>
</tr>
<tr>
<td>PEER-REVIEWED CONFERENCE PUBLICATION</td>
<td>xii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>xiii</td>
</tr>
<tr>
<td>CHAPTER ONE</td>
<td>1</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Chapter overview</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Background of the study</td>
<td>1</td>
</tr>
<tr>
<td>1.3 Research setting and justification</td>
<td>3</td>
</tr>
<tr>
<td>1.4 The purpose of the study</td>
<td>6</td>
</tr>
<tr>
<td>1.5 Research questions</td>
<td>6</td>
</tr>
<tr>
<td>1.6 Theoretical background</td>
<td>7</td>
</tr>
<tr>
<td>1.7 Research method and findings</td>
<td>9</td>
</tr>
<tr>
<td>1.8 Motivation and significance of the study</td>
<td>10</td>
</tr>
<tr>
<td>1.9 The Structure of the thesis</td>
<td>12</td>
</tr>
<tr>
<td>1.10 Definitions of key terms</td>
<td>15</td>
</tr>
<tr>
<td>1.11 Chapter Summary</td>
<td>16</td>
</tr>
<tr>
<td>CHAPTER TWO</td>
<td>17</td>
</tr>
<tr>
<td>PUBLIC FINANCIAL MANAGEMENT REFORMS IN SRI LANKA</td>
<td>17</td>
</tr>
<tr>
<td>2.1 Chapter overview</td>
<td>17</td>
</tr>
<tr>
<td>2.2 The country profile</td>
<td>17</td>
</tr>
<tr>
<td>2.3 The structure of Sri Lankan public sector</td>
<td>18</td>
</tr>
<tr>
<td>2.4 Historical overview of the public sector reforms in Sri Lanka</td>
<td>20</td>
</tr>
<tr>
<td>2.5 Sri Lankan public financial management reforms in 2000s</td>
<td>24</td>
</tr>
<tr>
<td>2.5.1 Government moving into accrual basis accounting practice</td>
<td>30</td>
</tr>
<tr>
<td>2.6 Chapter summary</td>
<td>32</td>
</tr>
</tbody>
</table>
Appendix A: Institutional approval from MOF and MOLGPC to conduct interviews with government officials ................................................................. 221
Appendix B: Ethic approval from RMIT Business College Human Ethics Advisory Network (BCHEAN) ......................................................................................................................... 223
Appendix C: Participants Information and Consent Form (PICF) .................................. 224
Appendix D: Draft interview questions ........................................................................ 227
Appendix E: Nvivo coding hierarchy .............................................................................. 229
Appendix F: Survey instrument ....................................................................................... 232
Section One- Background .............................................................................................. 232
Section Two- Prior condition for accrual basis accounting ............................................ 233
Section Three- Diffusion of knowledge about accrual basis accounting ......................... 234
Section Four- Persuasion for the accrual basis accounting ............................................. 236
LIST OF TABLES

Table 2.1-Major public sector reform strategies in Sri Lanka until 2000s .......................................................... 20
Table 3.1: Example of subjects of interest for diffusion studies in different disciplines .................. 36
Table 4.1: Five formulation of the elements of New Public Management(NPM) ................................. 63
Table 5.1: Organisation profile of participants ......................................................................................... 99
Table 5.2: Illustration of changes in particular question among the three tiers of government ...... 101
Table 5.3: Mapping interview questions with theoretical background .................................................. 102
Table 5.4: Coding for interview participants ............................................................................................ 106
Table 6.1: Response based on type of Local Government ................................................................ 156
Table 7.1: Responses based on adoption of new accounting practice ................................................. 156
Table 7.3: Test of non-response bias ........................................................................................................ 157
Table 7.5: Accounting background of the respondents ........................................................................ 158
Table 7.6: Respondents’ job positions ...................................................................................................... 159
Table 7.7: Respondents' background information and adoption level ................................................. 160
Table 7.8: Reason for adoption of new accounting practice ................................................................. 161
Table 7.9: Awareness and adoption ......................................................................................................... 162
Table 7.10: Diffusion of technical knowledge .......................................................................................... 164
Table 7.11: Diffusion of technical knowledge and adoption level of SLPSAS ........................................ 166
Table 7.12: Respondent attitude and belief toward the adoption of SLPSAS ........................................ 167
Table 7.13: Organisations’ involvement in adoption of SLPSAS ......................................................... 170
Table 7.14: Factors inhibiting the individual implementation of SLPSAS ........................................ 172
Table 7.15: Monitoring the use of accounting innovation ................................................................. 174
Table 7.16: Monitoring system in place and adoption ............................................................................. 175
Table 8.1: Sri Lankan Public Sector Accounting Standards .................................................................. 179
LIST OF FIGURES

Figure 1-1: Structure of this thesis ................................................................. 14
Figure 3-1: Rogers’ characteristics of an innovation........................................ 42
Figure 3-2: Diffusion of an innovation process (Source: Rogers, 1995).................. 46
Figure 3-3: Innovation adopter category (Rogers 1995)..................................... 48
Figure 3-4: Diffusion factors and diffusion process to determine the success of innovation.......................................................... 58
Figure 5-1: Research designed in this thesis .................................................. 93
Figure 5-2: The development and diffusion of accounting innovation ............... 98
Figure 5-3: Organizing a sub-hierarchy for reasons for diffusion ..................... 105
Figure 5-4: Research method linking with research questions.......................... 112
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AG</td>
<td>Auditor General</td>
</tr>
<tr>
<td>APFASL</td>
<td>Association of Public Finance Accountants of Sri Lanka</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>ICASL</td>
<td>Institute of Chartered Accountants Sri Lanka</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MOLGPC</td>
<td>Ministry of Local Government and Provincial Council</td>
</tr>
<tr>
<td>NPM</td>
<td>New Public Management</td>
</tr>
<tr>
<td>NPFM</td>
<td>New Public Financial Management</td>
</tr>
<tr>
<td>PPB</td>
<td>Performance, Planning Budgeting</td>
</tr>
<tr>
<td>PSASC</td>
<td>Public Sector Accounting Standards Committee</td>
</tr>
<tr>
<td>SAD</td>
<td>State Accounts Department</td>
</tr>
<tr>
<td>SLILG</td>
<td>Sri Lanka Institute of Local Governance</td>
</tr>
<tr>
<td>SLIDA</td>
<td>Sri Lanka Institute of Development Administration</td>
</tr>
<tr>
<td>SLPSAS</td>
<td>Sri Lanka Public Sector Accounting Standards</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>ZBB</td>
<td>Zero Based Budgeting</td>
</tr>
</tbody>
</table>
A research paper titled ‘Accounting Innovations and Diffusion-Adoption Process: Challenges for Local Government in Developing Countries’ developed as a part of thesis output was accepted for APIRA Conference proceedings, 13-15 July 2016, RMIT University, Melbourne, Australia.

A research paper title ‘The Diffusion of Adoption of New Accounting Practice in Developing Countries: The Case of Sri Lanka’ developed as a part of thesis output was presented at the American Accounting Association (AAA) Conference, 6-10 August 2016, New York, America.

A research paper titled ‘The Role of Processionals Association in the Diffusion of Accounting Innovation in Public Sector’ developed as a part of thesis output was presented at 28th Asian-Pacific Conference on International Accounting Issues, 6-9 November 2016, Maui, Hawaii.
ABSTRACT

A major feature of public sector accounting reform has been the replacement of conventional cash-based accounting with accrual accounting. Even though accrual accounting is a regular practice in the private sector, little is known about the way in which these practices are diffused throughout large and complex public sector organisations. This thesis relies on Rogers’ (1983) Diffusion of an Innovation Theory (DOI) to explore the diffusion of accrual accounting across the three-tiered (Central - Provincial - Local) government of Sri Lanka. The primary purpose of this thesis is to explore and describe the way accounting innovation is diffused throughout different layers of public sector organisations in the context of a developing country.

Data was collected from semi-structured interviews and a survey targeting Chief Financial Officers (CFOs) representative of all three tiers of government. The findings revealed that the success of the top-down diffusion process (supply side) does not always rely on higher-level government but to some degree on product champions (e.g. professional associations). The success of diffusion-adoption (demand side) will vary according to how adopters prefer to receive and respond to the diffusion of knowledge about the innovation. The findings also concluded that the rate of adoption was influenced by its observability in practice rather than its perceived advantages.

Traditionally, diffusion research emphasises the demand side of the diffusion process but by collecting and analysing data from both supplier and adopter of the accounting innovation, this thesis covered both sides of the top-down diffusion of new accounting practice in Sri Lanka. The findings of this thesis also provided insight into the relevance of accounting innovators (policy makers) and promoters in matching accounting innovation to meet a potential adopter’s requirements. The understanding of the diffusion process may be applied to future applications of the accounting innovation in the public sector for a smooth and quick adoption process.
CHAPTER ONE
INTRODUCTION

“The single most important reason for accounting innovation in public sector organisations is statute. But imposed dissemination does not guarantee the successful diffusion of an innovation” (Lapsley and Wright 2004, P.359).

1.1 Chapter overview

This research was conducted in order to understand and assess the diffusion of new public financial management innovations in public sector reform in the context of a developing country. The thesis explores the process of diffusion and adoption across the three tiers of government (Central-Provincial-Local Government organisations) in Sri Lanka. This chapter sets the context for the study, presents the background to the research, the purpose of the research (what the problem is), research questions, significance of the research and finally, the contributions of this research to the literature and to the policy makers. The chapter concludes with the overall structure of the thesis.

1.2 Background of the study

In recent decades, public sector management reform has become a global phenomenon making public service more effective and efficient, less expensive and capable of providing better quality of service (Webb, 2010). This new approach to public management has been labelled “New Public Management (NPM)”. It emerged in the 1980s and has become the subject of numerous research studies in accounting (Hood, 1995, Hood, 1991, Mir and Rahaman, 2007, Lapsley, 1999, Guthrie et al., 1999, Dunleavy and Hood, 1994, Rezende, 2008, Borins, 1998, Sarker, 2006, Batley, 1999, Boston et al., 1996, Savoie, 2006). Within the context of public sector reform, especially with regard to the concept of NPM, accounting is recognised as playing a crucial role in modernizing public sector organisations (Bruns, 2013, Lapsley, 1999, Hood, 1995, Connolly and Hyndman, 2006b). This reform
strategy labelled “New Public Financial Management (NPFM)” emphasizes the role of accounting and financial management technology in the process of reform. Thus, it typically involves the development of public sector budgets focusing on markets, performance management systems, government financial reporting systems and the reforms in the public sector auditing (Olson et al., 2001). The overall goal of NPFM is to attain an accountable and transparent public sector centred on operational and financial management processes (Broadbent and Guthrie, 1992, Parker and Guthrie, 1993, Guthrie et al., 1999).

The issue of accounting change within public financial management reform and the role of accounting has been addressed in a growing body of NPFM literature (Gurd, 2008, Liguori, 2012, Broadbent et al., 2001, Liguori and Steccolini, 2013, Olsson et al., 1998). A number of authors have attempted to explain the results and antecedents of change by considering institutional dimensions of organisations and their environment by drawing on institutional theories (i.e. new-intuitionism and old instructional economics) and legitimacy theory (Mutiganda, 2013, Adhikari et al., 2013, Ribeiro and Scapens, 2006, Harun et al., 2012, Carpenter and Feroz, 2001, Yapa and Guah, 2012b). These theories are focused on persuading individuals to change and identify factors associated with changing process at organisational and individual levels.

Despite the importance of understanding the diffusion process, which enables successful dissemination and adoption, the NPFM literature on the diffusion process in public sector organisations is limited (Jackson and Lapsley, 2003, Lapsley and Wright, 2004). Furthermore, research evidence indicates that NPFM implementations in the public sector are inhibited by a number of factors. Reasons include: a lack of technical capacity (Sarker, 2006); weak intergovernmental coordination(Samaratunge et al., 2008); high level of corruption (Mimba et al., 2007); and lack of political support (Harun and Robinson, 2010). Lapsley and Wright (2004), reveal that the public sector adoption of financial practices developed in the private section is largely attributed to government influence but its dissemination does not guarantee successful adoption.
Changes in public finance and accountabilities have direct consequences for the diffusion of new accounting techniques and practices and while new accounting systems are imposed, little attention is given to how such changes are diffused. This study is concerned with the diffusion of accounting innovation within a large and complex public sector environment.

1.3 Research setting and justification

Since the early 2000s, the Sri Lankan government has considered adopting budgeting and financial accounting reforms consistent with global trends, strongly influenced by global pressure imposed by international agencies such as World Bank (WB), International Monetary Fund (IMF) and Asian Development Bank (ADB) (Adhikari et al., 2013, Yapa and Guah, 2012b). Despite the receptivity of Government accountants to accounting innovations, previous failures with the implementation of zero-based budgeting and performance-based budgeting gave rise to debate, and delayed contemporary budgeting reforms in Sri Lanka (Adhikari et al., 2013). Gunawardena et al. (1996), highlight the lack of coordination and communication between different levels of government; the lack of independence that allow bureaucrats to formulate and implement public policy without excessive political guidance; and a high degree of political influence as obstacles to the smooth functioning of public sector reforms in history. The underlying principles and objectives of Sri Lankan cash accounting practices have remained intact in the public sector since their inception in the post-independence era.

Traditional accounting technology in China has been challenged in recent years by an attempt to introduce Cash basis IPSAS\(^1\) (Firth, 1996). The opportunity to attend courses and training abroad on public sector accounting, and connection with regional public sector officials, has helped to generate knowledge and acceptance of IPSASs among the Sri Lanka Government accountants and officials. In addition, the ADB launched the public expenditure management project of 2002 which became a

---

\(^1\) International Public Sector Accounting Standards (IPSAS)
major driving force behind the initiation of accounting reforms in Sri Lanka’s Central Government (Adhikari et al., 2013). The International Federation of Accountants (IFAC) established the International Public Sector Accounting Standards Board (IPSASB) to develop high quality global financial reporting standards for the use of public sector entities around the world. To achieve this mission, IPSASB developed and published IPSAS applicable to all public sector entities from national to local governments. The IPSASB encourages all governments to progress to the accrual basis of accounting and to align national requirements with the IPSAS (WorldBank, 2007b).

Since 2002, the State Accounts Department (SAD) has prepared consolidated annual accounts according to the Cash basis IPSAS, and the Auditor General of Sri Lanka has been certifying those accounts. Also, the format for presenting financial statements for 2005 has been improved, taking into account the ‘best practice’ adopted in other countries. The adoption of IPSAS provided the basis for competent financial reporting and transparency. The IPSASB also developed guidelines on the transition from cash-to accrual based reporting. However, a significant gap in the public financial accountability framework has been the lack of a mechanism for monitoring and reviewing outputs and outcomes of government expenditure. This requirement became more stringent with accruals, and the process needed to be tightened (WorldBank, 2007b).

This initiative encouraged debate on accrual accounting among government officials, university academics and professional accounting associations in Sri Lanka. The World Bank in 2005, in collaboration with the Government of Sri Lanka and various stakeholders, including the AG office, SAD and the Ministry of Finance (MOF), carried out an assessment of accounting and auditing standards practice in the public sector. In 2007, the Public Sector Accounting Standards Committee (PSASC) was established by the Institute of Chartered Accountants of Sri Lanka (ICASL) to formulate accounting standards for the public sector. The first volume of Sri Lankan Public Sector Accounting

2 International Public Sector Accounting Standard Board
3 International Public Sector Accounting Standard
4 Transition to the Accrual accounting of Accounting: Guidance for Governments and Government Entities, IFAC Public Sector Committee, December 2003
Standards (SLPSAS) was released in 2009 and contained four standards. The second volume comprising another six standards was released in 2012. There were several governments and non-government stakeholders involved in introducing accrual basis accounting in the Sri Lankan public sector organisations but little attention was given to how such changes would be implemented across the three tiers of public sector entities. Moreover, the adoption process of new accounting practice can be both a complex and controversial endeavour given the involvement of various stakeholders (Adhikari et al., 2015). The ways by which accounting innovations are diffused among the complex public sector organisations is an area that has not been considered in research on public sector reforms despite the importance and appropriateness of such innovations to the organisation (Lapsley 2000).

The introduction of accrual accounting in public sector organisations is an important component of the new public financial management reform movement (Olsson et al., 1998). The introduction of accrual accounting in public sector organisations in developed nations such as Australia, New Zealand and UK, has been addressed in an important body of NPFM literature (Carlin and Guthrie, 2003, Guthrie, 1998, Christensen and Parker, 2010, Christensen, 2002, Carlin, 2006, Pallot, 1994, Connolly and Hyndman, 2006b, Hyndman and Connolly, 2011). The continuing reforms of the public sector in both developed and developing countries with the implementation of management has given accounting a central role (Hood, 1991, Hood, 1995). Jackson and Lapsley (2003) pointed out that the characteristics of the diffusion process are thus of interest in light of the changing public sector environment. In fact, most studies on diffusion have been limited to innovations in the private sector environment, which nonetheless, provide useful insights regarding the diffusion of accounting innovation in the public sector (Lapsley and Wright, 2004). This thesis contributes to the diffusion literature by examining the diffusion of accounting innovation in a developing country context, thereby responding to calls for more research on the process of accounting change in an emerging economy (Broadbent and Guthrie, 2008).
1.4 The purpose of the study

The aim of this thesis is to explain and describe how public financial management innovation is diffused across the different layers of public sector organisations in a developing country. The thesis investigates the diffusion process of accrual basis accounting along with SLPSAS from the perspective of Chief Financial Officers (CFOs) who are employed by the public sector in Sri Lanka. The accrual basis accounting and SLPSAS originated at Central Government (innovators such as MOF and SAD) and was diffused through a top-down process into Provincial and Local Governments (adopters). This study focused in particular on hierarchical diffusion (diffusion through a top-down process) of accrual basis accounting to Provincial and Local Governments. One of the research aims was to identify Critical Success Factors (CSF) which influence the diffusion and implementation of accounting innovation and how different social systems (different adoption categorisation such as Provincial and Local Government) support, coordinate and drive each other toward successful (unsuccessful) diffusion process. The findings not only demonstrate how accounting innovation is diffused among the public sector, but also lead to recommendations for improving the diffusion strategy.

1.5 Research questions

In order to address the main research aim, the following research questions have been developed.

Primary Research Question:

How are accounting innovations diffused among the public sector organisations in Sri Lanka?

Subsidiary Questions:

a. What are the processes by which CFOs diffuse accounting innovation among public sector organisations in Sri Lanka?
b. What are the critical success factors for the diffusion of accounting innovation in public sector organisations in Sri Lanka?

1.6 Theoretical background

In order to achieve the objectives, this thesis applies the Diffusion of Innovation (DOI) theory, developed by Everett M. Rogers in 1983. DOI provides a fitting context for the divide between diffusion of an innovation and successful implementation to a given social group. Diffusion studies seek to explain how innovations are taken up in a population (Rogers, 1995b). Research on the diffusion of innovation can offer insight into how innovation can be spread throughout organisations, despite mixed evidence on the usefulness or appropriateness of the innovation to the organisation (Jackson and Lapsley, 2003).

Rogers (1983) outlined five stages of the diffusion trajectory: knowledge, persuasion, decision, implementation and confirmation. The diffusion process begins with the knowledge which occurs when an individual is exposed to an innovation’s existence and acquires some understanding of how it functions. At the persuasion stage, several factors encourage the key stakeholders to embrace innovation, including the likely costs and benefits to the organisation. The persuasion stage is followed by a decision regarding the adoption of the innovation, which can range from tentative approval to outright rejection of innovation. The next stage of diffusion is implementation of the innovation. At this stage, the innovation tends to be modified and reinvented so as to comply with the requirements of the specific setting. The last stage of Rogers’ diffusion trajectory is confirmation, which can have two opposing impacts on the diffusion process. Either, the wider adopters begin to realise the benefits of the innovations and institutionalise them, or they refuse to implement the innovation, as the intended benefits are not actually realised in practice. This study used this five-phase process in order to collect and analyse data to describe the diffusion process of accrual basis accounting.
DOI takes an approach that is radically different from most other theories of change. Instead of focusing on persuading individuals to change, it sees change as being primarily about the evolution or reinvention of product and behaviour so they become better fits for the needs of individuals and groups. It examines questions such as: Why do certain innovations spread more quickly than others? And, why do others fail? Diffusion scholars recognise innovation attributes that determine the success of an innovation. Further, Rogers’ model has identified the critical components in the change system and their characteristics. With the adoption of an extended version of Rogers’ diffusion trajectory, this study seeks to understand the diffusion process of new accounting technique into public sector organizations and determines how diffusion factors may influence its adoption.

Understanding an innovation is central to Rogers’ DOI theory. Innovation is defined as a process through which new ideas, objects and practices are created, developed or reinvented and which are new for the unit of adoption (Rogers, 1995b). The focus of innovation is the evolution or ‘reinvention’ of something new. It is not the change that occurs among people that is the focus of an innovation but the innovation itself. With the initiation of SLPSAS, the concept of accrual accounting, along with SLPSASs, was introduced to public sector financial reporting in Sri Lanka. While accrual accounting is not new in the world of accounting, it is a reinvention of accounting practice in Sri Lanka and therefore consistent with the definition of an ‘innovation’ as espoused by Rogers (1995). The unit of analysis in this study is the diffusion of accrual basis accounting among the three tiers of Government in Sri Lanka: Central Government, Provincial Council and Local Government bodies. The analysis focuses exclusively on the three tiers of government and does not include Government-owned business entities and statutory bodies.
1.7 Research method and findings

This study adopts a qualitative method of data collection and analysis to extend an existing theory, as opposed to theory testing. DOI is centred on the agent who is responsible for making a decision about an innovation informed by data regarding the process of developing, diffusing and adopting the innovation. In Sri Lanka, the key agent for responsible decision-making about the adoption and implementation of accrual basis accounting standards is the Chief Financial Officer (CFO). The CFO is well equipped with knowledge and experience in the public sector accounting process, providing a rich source of data relevant to the research objectives of this thesis.

Primary data was collected from two sources. First, 28 semi-structured interviews were conducted with CFOs among the three tiers of government (Central, Provincial and Local) who were selected based on their role in the diffusion process. The semi-structured interview questions were developed from the literature and linked to the five phases of DOI theory. Second, data was collected from a questionnaire distributed to 335 Local Government CFOs to determine the success or otherwise of the accounting innovation in practice. The interview data enabled an assessment of issues relevant to the five phases of DOI. The survey, constructed from the interview data and prior diffusion research, was intended to validate the interview data and enable the generalisation of the findings geographically. Based on a response rate of 34%, the survey results showed that the majority of Local Government Councils had implemented accrual basis accounting practice either fully or partially. However, accrual basis accounting had not been adopted as yet at the Provincial Government level.

The transcribed interview data was analysed based on qualitative analysis through each phase of diffusion process using NVivo10. The survey findings were analysed based on descriptive and basic statistical analysis by using SPSS. The discussion of qualitative and questionnaire analyses was conducted in accordance with the Rogers’ (1983) five-phase diffusion process (knowledge, persuasion, decision, implementation and confirmation). The integration of findings from both data
collection sources facilitated an understanding of the diffusion-adoption process of accrual based SLPSAS across public sector organisations in Sri Lanka.

1.8 **Motivation and significance of the study**

This thesis was motivated by the researcher’s desire to contribute to the body of literature on the diffusion of accounting with a particular focus on its application in the public sector in a developing country. A range of public sector accounting studies have drawn on diffusion theory to explore the emergence of new accounting approaches (Christensen and Parker, 2010; Ezzamel et al., 2014; Jackson and Lapsley, 2003; Lapsley and Wright, 2004). The diffusion of accrual accounting in the public sector, however, has become a distinct and diverse process involving multiple external and internal factors as well as formal and informal channels of communication (Broadbent & Guthrie, 2008; Lapsley & Wright, 2004). Christensen and Parker (2010) state that the existence of such complexities in the diffusion of new accounting techniques has become a key feature of public sector organisations. Diffusion theory has therefore been advocated for public sector accounting research due to its ability to shed light on such distinctive traits and to extend our knowledge of public sector accounting reforms. However, despite this apparent promise, prior research in accounting utilising diffusion theory has received limited attention.

Hussein (1981) identified three reasons that may account for this: firstly, most studies concentrate on only one aspect of the diffusion process - primarily on its rate of adoption and ignore the broader framework of sociological variables inherent in the channels of communication and variables of social structure, culture and values (Walker, 2006; Walker et al., 2011). The second important reason is the focus on accounting standards as the unit of analysis and the assumption that external and internal reporting are dealt with in the same way (Jackson and Lapsley, 2003; Lapsley and Wright, 2004). However, these two decision processes are distinctly different and should be considered separately. A third factor overlooked by some researchers is that the interests of the
groups involved, and therefore their choices of standards, are not necessarily congruent. Traditionally, diffusion research emphasises the demand side of the diffusion process (Bjørnenak, 1997). However, many adopters need to be persuaded to accept an innovation which in turn is influenced by the adopters’ awareness and demonstration of the innovation representing the supply side of the diffusion process. There is a general realization that financial reporting cannot be the sole province of any one group and that many interested parties have a significant interest, need and right to be heard in the diffusion process. Consequently, this thesis considers the interests and perceptions of both the demand side (CFOs in adopting organisations) and supply side (innovators including members of PSASC and MOF) and also the intermediary groups who promote and are responsible for implementing accounting innovation (regulators, and auditors) and their relationship in this process.

DOI and its application has been conceived and applied mainly in the context of private sector entities in developed countries such as Australia, New Zealand and the UK (Ezzamel et al., 2014; Ax and Bjørnenak, 2005; Bjørnenak, 1997; Walker et al., 2011; Perera et al., 2003). The characteristics of the diffusion process are thus of interest in the light of the changing public sector environment. Broadbent and Guthrie (2008) subsequently called for more empirical studies to explore the public sector changes in developing countries. This thesis contributes to existing literature on diffusion by examining the diffusion process of accounting innovation in a developing country, namely Sri Lanka. The findings of this study also provide insight into the relevance of accounting innovators in matching accounting innovation to meet local requirements. The understanding of the diffusion process may be applied to future applications of the accounting innovation diffusion process or a different type of innovation in the public sector to develop prompt and seamless adoption processes.
1.9 The Structure of the thesis

This section introduces the eight chapters comprising this thesis. The summary of thesis structure is presented in Figure 1.1.

Chapter 1: Introduction - outlines the background of this study, explains the purpose of the study, formulates the research questions, and describes the motivations and significance of the study.

Chapter 2: Public sector reforms in Sri Lanka - provides public sector reforms in Sri Lankan context. This includes background of public financial management reforms in Sri Lanka and prior conditions for introducing accrual basis accounting along with SLPSAS into Sri Lankan public sector organisations.

Chapter 3: Theoretical background - provides a review of diffusion of innovation theory in order to understand the background and diffusion factors which may influence the diffusion process and determine the success of innovation.

Chapter 4: Literature review on public sector reform - reviews and analyses the public sector reform literature especially on stream of New Public Financial Management (NPFM) and discuss the challenges to public financial management reforms in developing country context.

Chapter 5: Research methodology - outlines the research design in this thesis to address the research questions and ultimately meet the research objectives. This chapter includes both sources of data (interview and questionnaire), the development of the interview guide and questionnaire, and data analysis techniques.

Chapter 6: Findings and analysis I (qualitative analysis) – provides the finding and analysis of data collected from semi-structured interview source. This chapter outlines the analysis data related to the diffusion process from Central to Provincial and Provincial to Local Government according to the Rogers’ five-phase diffusion trajectory.
Chapter 7: Findings and analysis II (questionnaire analysis) - provides the third analysis of research findings from the questionnaire distributed to the 335 Local Government in Sri Lanka. This chapter outlines the analysis of responses both descriptively and statistically to discover the diffusion process of accrual basis standards from the Local Government perspective.

Chapter 8: Discussion and conclusion - presents the discussion of qualitative and questionnaire data analysis, presented in earlier chapters according to Rogers’s five-phase diffusion process (knowledge, persuasion, decision, implementation and confirmation). This chapter also provides the summary and conclusion of the study. The main conclusions are discussed in terms of the primary and subsidiary questions formulated in Chapter 1. The implications of the study for theory and practice, together with its limitations are also discussed. Finally, future research directions are suggested.
Figure 1-1: Structure of this thesis

<table>
<thead>
<tr>
<th>Stage</th>
<th>Thesis Design</th>
<th>Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>INTRODUCTION</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Background of study</td>
<td>Chapter 1</td>
</tr>
<tr>
<td></td>
<td>Aim &amp; questions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance of study</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Structure of study</td>
<td></td>
</tr>
<tr>
<td>Stage 2</td>
<td>PUBLIC FINANCIAL MANAGEMENT REFORMS- SRI LANKA</td>
<td>Chapter 2</td>
</tr>
<tr>
<td></td>
<td>✓ The country profile &amp; structure of public sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Public managerial reforms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Public financial management reforms including introduction of accrual basis accounting</td>
<td></td>
</tr>
<tr>
<td>Stage 3</td>
<td>THEORETICAL BACKGROUND &amp; LITERATURE REVIEW</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diffusion of an Innovation</td>
<td>Chapter 3</td>
</tr>
<tr>
<td></td>
<td>✓ Diffusion process: Knowledge, Persuasion, Decision, Implementation,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Public Financial Management (NPFM)</td>
<td>Chapter 4</td>
</tr>
<tr>
<td></td>
<td>✓ NPFM literature</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Challenges for NPFM</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Introduction of</td>
<td></td>
</tr>
<tr>
<td>Stage 4</td>
<td>RESEARCH METHODOLOGY</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data collection</td>
<td>Chapter 5</td>
</tr>
<tr>
<td></td>
<td>✓ Interview</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Questionnaire</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Interview guide</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Questionnaire</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data analysis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Qualitative</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Questionnaire</td>
<td></td>
</tr>
<tr>
<td>Stage 5</td>
<td>FINDING &amp; ANALYSIS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Qualitative and questionnaire data analysed and presented according to Rogers’ five-phase diffusion: knowledge, persuasion, decision, implementation &amp; confirmation</td>
<td>Chapter 6</td>
</tr>
<tr>
<td>Stage 6</td>
<td>DISCUSSION &amp; CONCLUSION</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Discussion of findings</td>
<td>Chapter 8</td>
</tr>
<tr>
<td></td>
<td>Implications of the study</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limitations and future research</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Summary of findings and conclusion</td>
<td></td>
</tr>
</tbody>
</table>
1.10 Definitions of key terms

This section defines the key terms in order to provide a better understanding of the concepts and terminology used throughout this study. Public sector (accounting) innovation is about the development of something new or different and every change is called ‘reform’ (Chan et al., 1996).

Definitions of key terms used in this study are follows:

**Diffusion** is the process by which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995b).

An innovation is the successful introduction of ideas, perceived as new, into a given social system. It is essential that as long as it is recognized as new in a given area or social group, it may be viewed as an innovation (Bjørnenak, 1997).

**Communication** is a process in which participants create and share information with one another to reach a mutual understanding (Rogers, 1995b).

The adoption of an innovation can be defined as the (voluntary and/or coercive) process through which (an organisation) passes first from knowledge of an innovation, to forming an attitude towards the innovation, to a decision to adopt or reject, to implementation of the new idea, and to confirmation of this decision (Rogers, 2003).

**New Public Management (NPM)** refers to the management of the public sector by government with the introduction of private management style and market orientation. The NPM practice can be seen in the decentralization of management, commercialisation, privatisation, outsourcing and downsizing (Upping, 2010).

**New Public Financial Management (NPFM)** refers to the accounting-based ‘financial management’ techniques in new public management processes, to the point where financial management is regarded as the technical ‘lifeblood’ of many of the NPM organisational structures (Guthrie et al., 1999).
1.11 Chapter Summary

This chapter provides the introduction to this thesis. The background setting of the study was presented first followed by the research objectives. Based on the objectives, the primary research question is formulated. In order to answer the primary research question, two research sub-questions have been articulated. The research context and justification for conducting research in setting are discussed next, followed by a brief discussion of the theoretical lens and research method adopted. The motivations for and the significance of the study are explained in terms of theory and practice. The chapter reviews the context of the Sri Lankan and public financial management reforms in order to understand the prior conditions for introducing accrual basis accounting into public sector organisations.
CHAPTER TWO
PUBLIC FINANCIAL MANAGEMENT REFORMS IN SRI LANKA

“In the region, Sri Lanka is probably at the forefront, as it prepares the general-purpose financial statements by referring to the cash basis IPSAS and progressing toward accrual basis accounting” (Tsamenyi and Uddin, 2010, p.189).

2.1 Chapter overview
Public sector reforms in developing countries are not new. Sri Lanka is a developing country in the South Asian region which has been experimenting with different public financial reforming practices over the last few decades. The objective of this chapter is to provide an analytical overview of the public sector reforms in Sri Lanka in light of the NPFM. This chapter is structured in three parts. The first part presents the country’s profile and describes the public sector in Sri Lanka. The second part provides a historical overview of the public sector reforms in Sri Lanka, and an analytical overview of the factors hampering the success of these reforms. The third part describes the public financial management reforms carried out in the 2000s, highlighting major initiatives such as the introduction of accrual basis accounting practice into the public sector, and the establishment of the institutional and constitutional framework to support this reform process.

2.2 The country profile
The Democratic Socialist Republic of Sri Lanka is located off the southeast coast of the Indian sub-continent. It has a total land area of 65,610 square kilometres and has a population of 21 million. The British tradition (the country was a British colony from 1815 to 1948) has highly influenced the Sri Lankan regulatory, accountability, and audit systems. It has also influenced the political and administrative processes with a centralised system focused on process rather than outcomes (Yapa and Guah, 2012b, Samaratunge and Bennington, 2002). Sri Lanka liberalised its economy in 1977.
The size of the public sector in Sri Lanka is in the region of about 1 million employees resulting in a substantially high per capita public sector employee ratio (approximately 1:10)\(^5\) signifying the importance of an efficiently operating public sector, for which designed reforms are justified.

Sri Lanka is classified by the World Bank as a middle-income-group country. It is a small multi-ethnic country, whose two main ethnic groups are the Sinhalese and Tamils. The Sinhalese community comprises over 75% of the population; the Tamils, concentrated in the North and East of Sri Lanka, form the largest ethnic minority comprising around 18% of the population. The declaration of Sinhalese as the official language by the Government in the 1960s led to ethnic tensions and conflict between Tamil and Sinhalese as the Tamil community felt that the Government and the Sinhalese majority had discriminated against them. The tension between the Tamils and Singhalese intensified in the late 1970s with the formation of several armed military groups within the Tamil community. This led to a brutal civil war between the Government army and Liberation Tigers of Tamil Eelam (L.T.T.E.), which emerged as the dominant Tamil rebel group that survived for 26 years until it was militarily defeated in May 2009.

### 2.3 The structure of Sri Lankan public sector

The public sector in Sri Lanka is large and diverse, comprised of three tiers of government: Central Government, Provincial Government, and Local Government. The country has nine Provincial Governments divided into 25 Districts and the Local Government consists of 335 entities made up of 23 Municipal Councils (MC), 41 Urban Councils (UC) and 271 rural Pradeshiya Sabha (PS). The Sri Lankan public sector organisations can be categorised into (a) Ministries, Departments, and constitutional bodies, including the Auditor General’s Department; (b) non-revenue-earning statutory bodies and public enterprises; (c) revenue-earning statutory bodies and public enterprises.

The Sri Lankan Accounting and Auditing Standards Act (No.15) 1995 requires that the revenue-earning statutory bodies and public enterprises report in accordance with Sri Lankan Accounting Standards. The Central Government Ministries, Department, Provincial Government and Local Governments are required to report in accordance with the Financial Regulations (1992) (FR) issued by the Public Finance Department of the Ministry of Finance (MOFP). These groups must prepare annual budgets and financial reports for each year ending 31st December. Two parliamentary committees, namely the Public Accounts Committees (PAC) and the Committee on Public Enterprises (COPE), are responsible for the oversight of public resources and the activities of government-owned business entities.

The State Accounts Department (SAD) under the MOFP is responsible for formulating accounting and finance policy and strategy for public sector organisations. According to FR (1992) of the MOFP, the Secretary to a Ministry is assigned the responsibility of ‘Chief Accounting Officer (CAO)’ responsible for supervising departmental financial transactions, subject to the direction of Treasury (Financial Regulation 1992, p.45). In the same manner, the Head of Department as the ‘Accounting Officer’ (AO) is responsible for all financial transactions of the department (Yapa and Ukwatte, 2015). The Treasury and SAD communicate directly with the CAO and AO and other relevant staff regarding accounting and finance matters.

In 1987, the Provincial Council (PC) system was introduced as a solution to remedy enduring ethnic conflicts as well as to represent multi-ethnic Sri Lankan societies. The system, which was established through the thirteenth amendment to the Constitution and through the passing of the Provincial Council Bill in October 1987, devolved a significant portion of the Central Government’s functions to the Provincial Council. Subsequently, in 1988, the 258 new Pradeshiya Sabhas (PS) was formally constituted as elected Local Governments. The PS was an amalgamation of pre-existing village councils and town councils.
Moreover, the establishment of the Pradeshiya Sabhas and the re-establishment of the Urban Councils occurred just after the thirteenth amendment to the Constitution of the Democratic Republic of Sri Lanka and made Local Governments subject to the Provincial Government. In 1989, the Central Government Department of Local Government was abolished and its functions were transferred to Provincial Government, through the establishment of the Provincial Local Government Department along with the head of Commissioners of Local Government (C-LG). The Central Government Ministry is responsible for policy development at national level, while the Local Government Department is responsible for implementing it at Local Government level.

2.4 Historical overview of the public sector reforms in Sri Lanka

From 1948 when it achieved political independence until 1977, Sri Lanka followed a centralised administrative model which continued without severe challenge. During this period, the direction of the government was on cash accounting with an emphasis on Program and Performance Budgeting (PPB). Since the 1970s, the Sri Lankan government has attempted to address its critical economic problems such as high unemployment and high poverty, through various public sector reform processes (Samaratunge and Bennington, 2002, Priyantha, 2007). Most of the reforms undertaken during the early days were based on a managerial platform of political and administration decentralisation, privatisation and commercialisation. Table 2.1 presents an outline of major reforms and the reasons for them.

Table 2.1- Major public sector reform strategies in Sri Lanka until 2000s

<table>
<thead>
<tr>
<th>Period</th>
<th>Reform strategy</th>
<th>Major theme</th>
<th>Closest reason for reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>Introduce divisional development council (DDCs)</td>
<td>Decentralization-administration</td>
<td>To address critical problems such as unemployment and high poverty</td>
</tr>
<tr>
<td>1973</td>
<td>Introduce district political authority (DPA)</td>
<td>Decentralization-political</td>
<td>To introduce political leadership at the local level</td>
</tr>
<tr>
<td>Year</td>
<td>Action</td>
<td>Context</td>
<td>Notes</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>---------</td>
<td>-------</td>
</tr>
<tr>
<td>1980</td>
<td>Introduce district minister system (DM)</td>
<td>Decentralization-political &amp; admin</td>
<td>Dissolve DPA system and DM system is for better coordination between functional minister and district minister</td>
</tr>
<tr>
<td>1987</td>
<td>Introduce Provincial Council (PC) system</td>
<td>Decentralization-political &amp; admin</td>
<td>Dissolve DM system due to weak coordination. PC system is for better responsive public service delivery</td>
</tr>
<tr>
<td>1987</td>
<td>Appoint Presidential committee on Privatisation, corporatized and privatised government entities</td>
<td>Privatization and commercialisation</td>
<td>To reduce government public debt, international pressure, but achieved only limited success due to inadequate institutional arrangement and absence of minimal safety nets for retrenched workers.</td>
</tr>
<tr>
<td>1990s</td>
<td>Training staff to more effectively and redeployment of surplus staff;</td>
<td>Private style management practice</td>
<td>International development agencies pressure to increase the productivity in public service.</td>
</tr>
<tr>
<td>1997</td>
<td>Introduce performance and aptitude appraisals for senior civil servants, with annual increments and promotions linked with outcomes</td>
<td>Explicit standards and measures of performance</td>
<td>Motivate and encourage public servants to be more effective and efficient in public service.</td>
</tr>
</tbody>
</table>

(Source: Samaratunge & Bennington 2002)

Within the provisions of the new Constitution in 1972, a five-year development plan was introduced to increase the annual economic growth by 6 per cent from 1972 to 1976. For example, budget estimates for ministries of education, health and finance were drafted on the basis of PPB in 1971 (Treasury, 1971). In this reform, the Government introduced Divisional Development Councils (DDCs), a form of decentralisation to create rural employment using available local resources; however, due to poor policy implementation and a series of management problems, DDCs were
withdrawn and replaced with the District Political Authority (DPA) in 1973. The system of DPAs attempted for the first time to introduce political leadership at a local level (Samaratunge and Bennington, 2002). The Government announced that the main objective of the DPA was primarily to accelerate food production in the district and to address the general supervision of the administrative affairs in the district (Ranasinghe, 2014).

The Agent of Government (AG) became the administrative coordinator in the execution of decisions taken by the District Planning Unit, which consisted of the DPA and the Member of Parliament (MP) within the district. With the increasing power of MPs, the AG acted as a coordinator of the development activities in consultation with the politicians in the district. The DM system was introduced to provide political input at the district level. District Ministers were Members of Parliament appointed by the President to work closely with functional ministers at central government level. But due to the bureaucratic power of the Central Government, most of the reforms at district level were not successful (Samaratunge and Bennington, 2002).

After 1977, the UNP government introduced new economic liberalisation policies which attempted to align with global economic trends and to foster private sector involvement in economic activities. Adhikari et al. (2013), in their study on Nepal and Sri Lanka stated that the implementation of public sector accounting reforms in LDCs has been a key agenda of international organizations since the 1980s. The findings of the study demonstrated that colonialism has influenced Sri Lanka to promote accounting education and training, enabling the country to implement some of the public sector reforms. In line with these initiatives, the liberal economic policies adopted by Sri Lanka were supported by the IMF and granted some financial assistance (Adhikari et al, 2013).

In the early 1980s, privatisation was seen as a means of addressing the challenges arising from globalisation. During this period, initial discussions took place on accrual accounting in the public sector in Sri Lanka and a Presidential committee was appointed in Sri Lanka to develop the necessary legal and institutional framework for the process of privatisation (Central Bank 2002; Government of
The responsibilities of this committee were to: provide Sri Lanka’s accounting and audit authorities and other interested stakeholders, with a common strongly founded knowledge (including accrual accounting) regarding the status of local practices in accordance with the internationally developed standards of financial reporting and audit; assess the prevailing variances; chart paths to reduce the variances; and provide an ongoing basis for measuring improvements in the economy. However, the ethnic-based civil war that began in the 1980s led to several decentralisation initiatives in the public sector reform program which was introduced in 1987, one of which was the establishment of Provincial Councils (Samaratunge et al, 2008).

In addition to privatisation, the government adopted a number of administrative reforms. In 1997, the Government introduced a number of reforms with the support of international development agencies such as the Asian Development Bank (ADB) (Jayawardena, 1997): These include the:

- adaptation of strategic policy formulation and policy coordination to more effectively achieve policy outcomes;
- adoption of a result-oriented philosophy as the guiding management principle;
- separation of policy-making, service delivery and regulatory functions of government;
- realignment of responsibilities to more effectively support the goals of government;
- training staff to more effectively respond to the new environment and thereby realize their potential; and
- redeployment of surplus staff, if any, to new functions within government or to new opportunities in the private sector.

In 1997, the Government introduced performance and aptitude appraisals for senior civil servants, with annual increments and promotion linked to the outcomes of the assessments (Samaratunge and Bennington, 2002). The objective of this initiative was to encourage active participation of public servants in the management of government operations. The Ministry of Public Administration also introduced a new recruitment and selection method to select competent professionals to implement
such reforms. However, these changes were challenging, as bureaucrats were not readily available for the effective implementation of these new arrangements.

Many of these reforms did not achieve the desired outcomes due to various reason attributable to the high degree of politicisation of the bureaucracy, the lack of coordination level of government, and the bureaucratic domination of the system, all of which hampered the reforms (Samaratunge and Bennington, 2002).

2.5 Sri Lankan public financial management reforms in 2000s

The government accounting service in Sri Lanka was established by the British government in 1946 after World War II and two years before political independence, with a view to establishing and assisting financial regulations and procedures for the colonial government. This service was further expanded after 1948 to facilitate expanding public services. After nearly thirty years of civil war, it was quite evident that Sri Lanka was very keen to achieve a rapid and sustainable economic growth with a view to providing economic stability for the nation, and integrating it with other nations of the Asia-Pacific region such as Singapore, Malaysia, India and Hong Kong (Yapa and Gouh, 2012).

The open economic policies, the aftermath of the 2004 tsunami, and the ending of nearly thirty years of civil war in 2009, created an environment for reform to the governance and management of financial policy in Sri Lanka’s public sector. The post-ethnic war development was quite conducive to financial policy reforms and transparency in the public sector in Sri Lanka. Accounting in public and private sectors in Sri Lanka was also subject to international influences such as the IFAC and International Public Sector Accounting Standards Board (IPSASB). It was evident that Sri Lanka expected to achieve economic stability and integration with neighbouring countries through its rapid economic growth.

In their report, the World Bank (2007b) indicated the value of the public sector as follows:
A well-functioning public sector that delivers quality public services consistent with citizen preferences and fosters private market-led growth while managing fiscal resources prudently, is considered critical to the World Bank’s mission of poverty alleviation and the achievement of millennium development goals (cited in Broadbent and Guthrie, 2008).

Traditionally, cash-based accounting was the most accepted form of accounting in the public sector and is still practised in many LDCs. The accrual accounting recognises revenues and expenses for the period in which they are earned or incurred (Guthrie et al, 1999). The key difference between cash and accrual accounting is the timing of financial transactions. Cash accounting records a transaction when cash is exchanged, whereas accrual accounting records the outcome of the transaction when economic value is exchanged. Thus, the introduction of accrual accounting is an important component of the (NPFM) reform movement that has been sweeping across many developed countries during the last decades (Olsson. et al, 1998).

Several studies show that the trend towards accrual accounting is likely to continue during the years to come (Blöndal, 2003). As evidenced in developed countries, the IPSASB (formally the Public Sector Committee - PSC) and OECD Public Management Committee directly or indirectly support this move. This move focuses on the accounting and financial reporting needs of national, regional and local governments, related government agencies, and the constituency they serve. It should be noted here that the adoption of accrual accounting by the public sector has attracted severe criticism. For example, most of the transactions carried out within the public sector are non-exchange transactions. This means that revenues received from various sources such as taxation do not provide equal value in return, while the services provided (such as building infrastructures) do not receive equal value in return. Hence, the principle of matching revenues earned and cost incurred (labelled as the matching-principle), which is used in accrual accounting, is not applicable in the public sector setting (Hassan, 2013; Barton, 2004; Athukorala & Reid, 2003; Chan, 2003). Nevertheless, the notion of NPFM is shared by international bodies that have imposed the accrual
based accounting system on LDCs in the recent past and as a result, they are encouraged to adopt the accrual accounting system for their public sector.

With the political change in 1994, the SLFP-led alliance came into power and the market-led economic policies of the UNP government were not rejected. During this period, a modified accrual accounting system was in place in the public sector. With financial assistance from the ADB, a large scale computerised accounting project was introduced to the public sector organisations in 1995 and a public expenditure management system was introduced from 2000 to 2002 in Sri Lanka to facilitate PPB. These programs and the conventional cash-based accounting were not changed (Kuruppu, 2010, General Treasury, 2000). Several retired auditor generals in Sri Lanka insisted on the implementation of accrual accounting in the Central Government of Sri Lanka in order to implement PPB in a meaningful manner (Kuruppu, 2010). While these initiatives were being implemented, the UNP right wing political party came into power in 2001, and decided to reform the government budgetary process to tackle the problems of unemployment and severe budget deficits. As a result, all ministries, provincial councils, departments and statutory boards were required to allocate public resources with Zero-Base Budgeting (ZBB) from 2003 (Kuruppu, 2010; Wickramasinghe and Hopper, 2005).

In order to strengthen the accountancy profession world-wide, the International Federation of Accountants (IFAC) established the International Public Sector Accounting Standards Board (IPSASB), to develop high quality global financial reporting standards for the use of public sector entities around the world (ICASL, 2009). The IFAC published the International Public Sector Accounting Standards (IPSAS) for all public sector entities from national and central governments to local governments (Oulasvirta, 2012; Sutcliffe, 2003, Lye et al, 2005). In 2003, the government prepared consolidated general-purpose financial statements on cash basis IPSASs as a partial shift to modified accrual accounting (SAD, 2003). Kuruppu (2010) stated that the World Bank confirmed that the financial statements of the Sri Lankan government for the year 2002 were in accordance with the
cash basis IPSAS. It was clear that this was the first effort to reform the public sector’s conventional format of financial statements that were inherited from international bodies such as IFAC, World Bank and ADB.

Sri Lanka was a founding member of the ADB in 1966 and, for nearly five decades, the partnership between Sri Lanka and the ADB produced a broad spectrum of projects that improved the lives of millions. The ADB has helped the government of Sri Lanka to implement its long-term development plan by providing financial assistance and technical expertise. From 1968 to 2011, the ADB approved 157 loans to the Sri Lankan government amounting to $5.3 billion and 245 technical assistance projects amounting to $115 million. Among these assistance projects, the public sector’s financial management has been crucial. Specifically, the ADB has assisted the MOFP to: improve public investment programming in several areas including the budget process; improve the internal audit function; streamline financial legislation and regulations to ensure financial management on a sound legal footing; and develop a comprehensive information technology strategy and system to enhance the management of the finance function and computerised financial reporting system in Sri Lanka. The ADB committed US$ 449.43 million or 21 percent of the total commitment made by all donors in 2007. These commitments were made through four loan agreements and two grant agreements signed during 2007. Of this amount, US $ 432.9 million was committed in loan funds and the balance US$ 16.5 million in grants (MOFP, 2009).

With the assistance of the ADB, during the past few years, senior government officials have been involved in various training and awareness programs pertaining to the accrual based accounting system. On 31 December 2013, the ADB approved a total of 176 loans (both sovereign and non-sovereign), with cumulative loans of $6.17 billion to Sri Lanka. In addition, the ADB provided $358 million in grant assistance (including the ADB-administered, co-financed grants) for projects, and $122.8 million in 259 technical assistance grants (http://www.adb.org/publications/sri-lanka-factsheet).
In 1996, an IMF delegation visited Sri Lanka to assist the government to find effective measures of public expenditure management (Thomas, 1998). As a result, numerous seminars and workshops conducted to encourage the government to adopt modified accrual accounting (Adhikari et al, 2013). The IMF provided financial assistance to Sri Lanka for more accountable and effective public financial management (PFM) system to complement fiscal consolidation. Core PFM processes are fairly robust and to commensurate with Sri Lanka’s move to open economic policies, the potential reforms were guided by IMF through various technical assistance programs to: update the legal and regulatory framework; improve budget preparation, including development of a medium-term rolling budget framework; and strengthen budget execution, including recording and reporting of commitments and arrears, and the oversight and monitoring of public sector management. Among them, developing an oversight and reporting framework for state-owned enterprises and updating financial regulations to modernize the financial administration framework with IMF technical assistance, were very important.

Under a $2.6-billion IMF loan program, Sri Lanka reduced its budget deficit to a 19-year low of 6.4 percent of gross domestic product in 2008. Lending arrangements, which were similar to a line of credit, were approved by the IMF Executive Board to facilitate the country’s adjustment program. The arrangement required the member to observe specific terms in order to be eligible to receive a disbursement. The IMF lends under Stand-by, Extended and Precautionary and Liquidity Line arrangements, and, at reduced rates, under Poverty Reduction and Growth Trust arrangements. The IMF Executive Board met in 2009 and paved the way for the release of just over $322 million. The Board reviewed the Sri Lankan government’s progress on the implementation of reforms agreed to in 2009 and the second instalment of the country’s loan was approved (IMF, 2009).

As a result of the diagnostic reports by various international bodies during the recent past, currently the Sri Lankan central government organisations, the provincial councils and local government institutions follow cash-based IPSAS. Public Sector Enterprises use accrual- based accounting for
their annual financial reporting. At present, there are about 300 ministries and departments and about 325 local authorities and 8 provincial councils operating in Sri Lanka. These public institutions are operated mainly with the public funds provided by the Sri Lankan government. Therefore, the operations of these public institutions are under the close scrutiny of oversight committees such as PAC and COPE and the AG of Sri Lanka on a regular basis.

According to the Financial Regulations (FR) of the MOFP of Sri Lanka, it is the duty of the Minister of Finance to appoint each Secretary to a Ministry as a ‘the Chief Accounting Officer’ (CAO) responsible for supervising departmental financial transactions, subject to the direction of the Treasury (Financial Regulations of the Government of Sri Lanka, 1992, p.45). According to this arrangement, the Treasury retains the general control over government financial matters while the CAOs discharge their constitutional responsibility of supervision over the departments concerned in respect of their financial transactions. In the same manner, the Head of Department is responsible as the ‘Accounting Officer’ in respect of all financial transactions of the department (Warnapala, 2004; Yapa & Guah, 2012). This evidence reveals that the existing system of public financial management is relying on cash-based accounting and dominated by public regulations.

While reforms to the public sector were taking place in developed countries, the pressure for LDCs to reform their public sector accounting standards was driven by the requirements imposed by international financial agencies such as the World Bank, the IMF and in particular by the ADB when granting funds. Countries such as Fiji, Ghana, Nepal, Sudan and Indonesia were some of the LDCs that had recently introduced or were in the process of introducing accrual accounting in their public sector as a consequence of compliance requirements imposed by the international financial agencies (Tsamenyi and Uddin, 2010). The view of international financial agencies is that the cash accounting in the public sector is mainly short term, and to achieve public sector efficiency, specific attention should be paid to the execution of government budget and compliance with the government financial and administrative rules and regulations, rather than paying attention to managing
economic resources sustainably. The other point raised by international agencies is that the traditional practice of cash accounting is inadequate as it fails to recognize true costs, and all assets, and liabilities. Cash accounting can too easily neglect asset management, accumulating arrears, future liabilities (e.g., pensions), and contingent liabilities (e.g., guarantees) (World Bank. 2007b).

2.5.1 Government moving into accrual basis accounting practice

The decision to move towards accrual accounting in the public sector in Sri Lanka has been a well-debated topic. After the civil war ended in May 2009 (MOFP, 2009; ICASL 2009), when granting various loan facilities and/or donations to the Sri Lankan government, international financial agencies advised the Sri Lankan government to introduce accrual accounting in public entities. As a result, the Public Sector Accounting Standards Committee of the ICASL with the participation of AG and MOFP jointly took the initiative and produced the first volume of Sri Lanka Public Sector Accounting Standards (SLPSAS) in 2009 with the guidelines provided by the IPSASB on the transition from cash- to accrual-based reporting. Thus, the SLPSAS are based on the IPSAS (MOFP, 2009; ICASL 2009). In 2012, a second volume of six standards was released. The SLPSASs were designed to apply general purpose financial statements across all public sector entities including Ministries, Departments, Provincial Government and Local Government. The standards do not apply to Government Business Enterprises (GBEs) which rely on the Sri Lanka Accounting Standards (SLASs) issued by the ICASL.

The unique characteristic of SLPSAS is that the Public Sector Accounting Standards Committee of the ICASL prescribes public sector accounting standards and monitors the reporting practices in the public sector. Prior to these new standards, the ICASL did not pay much attention to public sector accounting. In approving the professional accounting body (ICASL) through an Act of parliament (Act no.23 of 1959), the state recognised its existence and supported its development over several decades. In such an environment, today one would expect to find a well-developed professional accounting environment both in the public and corporate sectors and a robust accounting profession
with an adequate number of locally qualified accountants in Sri Lanka. However, this is questionable (Yapa, 2006, 2010; Yapa & Guah, 2012).

Although ICASL was set up to improve the status of the accounting profession in accordance with the national objectives of the government and to achieve other socially useful objectives, analysis of the Sri Lankan accounting environment and ICASL’s role in public sector financial management during the last five decades of its existence raises serious doubts about the supply of qualified professionals. Consequently, at the moment, there are only a handful of qualified chartered accountants working in the public sector. Many chartered qualified accountants were not encouraged to join the Government accounting service mainly due to poor salaries and facilities in the public sector (Chandrasena, 2004). Basically, the government accounting is handled by members in accountants’ service in the public sector that maintain the Sri Lanka Accountants’ Service Division under the Ministry of Public Administration and Management.

Despite the fact that public sector financial statements have been available for the general public on the website since the early 2000s, the Sri Lankan version of the IPSASs (called SLPSAS) was not developed until 2009. While there are a number of institutions, such as the Sri Lanka Institute of Development Administration (SLIDA), AG’s office and MOFP, that conduct training and have produced some of the public sector accounting reform ideas, there is resistance to implementing reforms, especially the accrual accounting reforms, at the lower levels of the public sector in Sri Lanka (Adhikari et al, 2013).

The role of ICASL in the public sector accounting has been observed as pivotal in the recent past. The Government of Sri Lanka is currently taking possible steps to move towards to accrual accounting system in the Ministries and Departments to enhance transparency and accountability in the public sector. In this process, the ICASL, in its authority as the national accounting body, has implemented many initiatives including the introduction of accrual accounting to cater for the professional needs of members of the public sector financial management sector. The issuance of
SLPSAS is a major contribution in this direction. The ICASL which was set up in 1959 by a parliamentary Act was not concerned with developing public sector accounting through qualified chartered professionals or with relevant professional qualifications as there were no incentives from the stakeholders. The ICASL’s agenda was to promote the private sector (See Yapa, 2006 and 2010). However, due to international pressure in the recent years, the ICASL took the initiative to promote the public sector accounting standards under their direct supervision.

Following these reforms in Sri Lanka, primarily stemming from the introduction of SLPSAS, this thesis examines the process of diffusion and the critical success factors that contribute or limit the success of this accounting innovation. The mechanisms involved in the diffusion process, discussed in this chapter, that include circulars in the dissemination of knowledge, and training to enhance capability, professional accounting association involvement in developing and promoting innovation along with many other mechanisms, will be examined in light of Rogers’ DOI theory (1983) in order to understand the accounting diffusion in Sri Lanka.

2.6 Chapter summary

This chapter presented the history of public sector reforms and recent public financial management reforms in Sri Lanka. It can be seen that the government became increasingly concerned with managerial reforms strategy such as privatisation, political and administrative decentralised governance system and commercialisation of government business in line with the global trend. However, the majority of these reforms could not achieve their desired outcomes for various reasons such as the weak intergovernmental mechanism for policy diffusion, lack of political and administrative support and limited resources and technological capacity. The various measures had been adopted in a piecemeal and ad hoc manner without any long-term vision and strong commitment which are essential to the effective achievement of reforms.
In recent times, the Sri Lankan government has given high priority to the reform of public financial management practice with the introduction of globally accepted accounting standards and practices. Various pressure groups, including international organisations and professional accounting associations, have stressed that there should be some strategies to transform the traditional public sector institutions into more accountable, transparent and efficient public entities that are more capable of fulfilling the pressing and legitimate public demands for value-for-money. As a result, in 2003, the government introduced cash basis IPSAS and proposed to adopt them when preparing consolidated general-purpose financial statements for the year ending 2002. However, the majority of public sector accountants were greatly concerned about the difficulties of adopting international accounting standards in Sri Lankan public sector. As result, the ICASL established a committee to develop local public sector accounting standards with funding assistance from the World Bank. This committee was a joint initiative of the ICASL and MOFP. In 2009 and 2012, the first and second volumes of public sector accounting standards were released respectively. At present, there are ten standards for the preparation of public sector accounting in Sri Lanka.

There are various government and non-government key stakeholders such as MOF, SAD, AG, World Bank, ADB, SLILG, SLIDA and ICASL involved in the introduction of accrual basis accounting into public sector organisations. They play different roles in the diffusion and adoption process of accrual basis accounting such as innovator (MOF, SAD & ICASL), promoters (WB and ICASL), and intermediary organisations (SLILG, SLIDA, AG) in training. This study focused on the diffusion of accrual basis throughout Provincial and Local Governments and therefore, in the diffusion process, they are the adopters of accrual basis accounting. This study examined the diffusion process of accrual basis accounting throughout public sector organisations in Sri Lanka in terms of the five-step diffusion process explained by Rogers (1995), and explained the diffusion process from the perspective of the Chief Financial Officers (CFO). This study of the CFO’s knowledge and experience of the diffusion of accrual basis accounting will contribute to existing literature on diffusion in the
public sector and also identify the critical success factors inhibiting the implementation of accrual basis accounting.
CHAPTER THREE
THEORETICAL PERSPECTIVE

“Getting a new idea adopted, even when it has obvious advantages, is difficult” (Rogers, 2003, p.1)

3.1 Chapter overview

Social and economic changes are a direct consequence of the diffusion of a new idea or practice. This thesis adopted the Diffusion of Innovation (DOI) theory to examine how accounting innovation is diffused throughout public sector organisations in Sri Lanka. This chapter is structured as follows: the second section provides the general background of DOI theory; the third section identifies and clarifies the key elements of DOI theory in the diffusion process; the diffusion factors that can influence or determine the success of innovation are explained in section four; the fifth and final section reviews and analyses research literature where the diffusion theory has been applied to examine the elements of the diffusion process.

3.2 Diffusion of an innovation: a descriptive typology

Everett M. Rogers formalized the DOI theory when he became interested in the diffusion of agricultural innovation by observing farmers in his home State of Iowa. Rogers was intrigued by the farmers’ refusal to adopt new farming innovations despite knowing that such inventions would produce economic benefits. By observing how such new farming applications diffuse among farmers over time, Rogers created the Diffusion of Innovation theory first published in 1962 (Rogers, 1962). The second edition of this book, co-authored by Everett M. Rogers and F.Floyd Shoemaker, was published in 1971 titled “Communication of Innovation: A Cross-Culture Approach” (Rogers and Shoemaker, 1971). The third, fourth and fifth editions of “Diffusion of Innovation” were published in 1983, 1995 and 2003 respectively.
Rogers (1995, p.5) defines diffusion as “a social process whereby innovation is communicated through certain channels over time among the members of a social system”. It is a special type of communication in that the messages are concerned with new ideas. It is this newness of the idea in the message content of communication that gives diffusion its special character. The newness means that some degree of uncertainty is involved (Rogers, 1995b). Diffusion is a kind of social change, defined as the process by which alteration occurs in the structure and function of a social system. When new ideas are invented, diffused, and are adopted or rejected, leading to certain consequences, social change occurs. This process is applied to changes in public financial management practice.

This thesis relies on Roger’s diffusion of innovation theory to analyse data for two primary reasons. First, diffusion of innovation theory purports to explain the pattern and rate of adoption of an innovation in a population. Whereas, alternative theories such as Legitimacy theory (Adhikari et al., 2013, Ribeiro and Scapens, 2006, Harun et al., 2012) which highlights the way innovations are adopted; and Contingency theory (Christensen, 2002, Yamamoto, 1999, Harun and Robinson, 2010) which examine situation specific scenarios, Roger’s framework offers an explanation for the spread of an idea, product or technique through a given space over time. This theory contains three basic interrelated components: (1) the innovation, (2) the adopter, and (3) the adoption environment. The operationalization of diffusion theory has resulted for all practical purposes in a set of partial equilibrium hypothesis that focus on either attributes of innovation or/and attributes of adopter. Diffusion theory examines these attributes and their interrelationship (Feller and Menzel, 1977). This thesis will unfold the diffusion process of accounting innovation among the public sector and this process could influence both the innovation attributes and adopter attributes within the social system (adoption environment).

The second major advantage of using Roger’s framework is that unlike alternative theories, it is applicable at the individual and/or organisational level, and accommodates an examination of the
crucial diffusion process through multiple adopters (Perera et al 2003). The diffusion of accounting innovation in the public sector however become a distinct and diverse process involving multiple external and internal factors, and formal and informal channels of communication (Lapsley and Wright, 2004). Christensen and Parker (2010), state that the existence of such complexities in the diffusion of new accounting techniques has become a key feature of public sector organisation. This thesis examines the diffusion process of accounting innovation across the multiple adopters’ organisations and settings. Roger’s framework has therefore been advocated for public sector accounting research due to its ability to shed light on such distinctive traits and to unfold the process of diffusion (Jackson and Lapsley, 2003, Adhikari et al., 2015).

The major point of interest in diffusion theory is how and why (or why not) some agents adopt an idea or phenomena. In biology research examines why some people contract a disease, and others not, and sociologists focus their attention on how and why rumours are spread, and so on. Diffusion research applied in the accounting domain examines how and why accounting innovation is spread and adopted in a given social system (Ax and Bjørnenak, 2005, Alcouffe et al., 2008, Malmi, 1999). Diffusion theory has great multidisciplinary characteristics, illustrated in Table 3.1. During the 1960s and 1970s, the results of diffusion research were incorporated into social psychology, communication, public relations, advertisement, marketing, consumer behaviour, rural sociology, and many other fields. Both practitioners (like change agents) and theoreticians have come to regard the diffusion of innovations as a useful field of social science knowledge (Rogers, 1983).

**Table 3.1: Example of subjects of interest for diffusion studies in different disciplines**

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Example of subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical science</td>
<td>Gas between vessels</td>
</tr>
<tr>
<td>Biological science</td>
<td>Spread of diseases</td>
</tr>
<tr>
<td></td>
<td>Distribution of species</td>
</tr>
<tr>
<td>Sociology</td>
<td>Spread of rumours</td>
</tr>
<tr>
<td></td>
<td>The nature of social resistance</td>
</tr>
<tr>
<td>Economics</td>
<td>Diffusion of social resistance</td>
</tr>
<tr>
<td></td>
<td>Economic development</td>
</tr>
<tr>
<td>History</td>
<td>Pioneer settlement</td>
</tr>
</tbody>
</table>
Although diffusion research has made numerous important contributions to our understanding of changes in human behaviour, one shortcoming of the theory was its thoroughly descriptive approach. Early research by Professor Frank Bass developed a mathematical model on diffusion innovation in 1963, based on “the probability of adopting by those who have not yet adopted is a linear function of those who had previously adopted” (Bass, 1969). The Bass model was first published in 1963 by Professor Frank Bass but the empirical evidence in support of the model was provided in the 1969 Bass model paper (Bass, 1969).

Bass saw that Rogers’ work on the spread of innovations in social systems by word-of-mouth could be the basis of a new mathematical theory to explain how information about new products is diffused among potential customers. The Bass Model assumes that sales of a new product are primarily driven by word-of-mouth from satisfied customers. At the launch of a new product, it is mostly the innovators who purchase it. Early owners who like a new product influence others to adopt it. Those who purchase primarily because of the influence of early owners are called imitators. The Bass Model is the most widely applied new product diffusion model. It has been tested in many industries and with many new products and technologies. This model is more appropriate for testing the parameters to understand why different adopters behave differently in response to a particular product at a particular time.

This thesis is explorative in nature as it examined how the accrual accounting process is distributed throughout public sector organisations rather than why potential adopters behave in different ways. Therefore, Rogers’ (1983) diffusion framework is more appropriate as a means of explaining the process of diffusion than is the Bass model of diffusion. The adopter’s response to innovation is regarded as a consequence of the diffusion process. Geroski (2000) suggests that diffusion is a process by which new technologies are developed and spread, and that diffusion is about matching
new technologies to a wide range of user needs. Thus, the characteristics of the diffusion process are of interest in light of the changing public sector environment (Jackson and Lapsley, 2003).

Rogers (1995, p.11) defines an innovation as “an idea, practice, or object that is perceived as new by individuals or other unit of adoption”. Innovation is a complex and contested issue (Walker, 2006). Some organisations may adopt innovations to deliver better service to users; other organisations adopt innovations for the purpose of institutional legitimacy (Walker 2006 cited Feller 1982). Public sector organisations may respond to internal and external changes and independently develop and implement innovations (Osborne and Gaebler, 1992). Governments put in place strategies to encourage the adoption of innovation and develop mechanisms to diffuse innovations, including learning of technical knowledge. Previous studies provide evidence that variations in the adoption of ‘innovative program of management reform’ are a product of the differences in organisations, structure, cultures and values (Newman et al., 2001). Consequently, the factors that drive the adoption of innovation need clarification.

In general, there are two major types of diffusion processes. The first one is ‘relocation’ diffusion which is focused on how ideas (or people) enter an area without necessarily increasing the number of adopters (people). (Bjørnenak, 1997) identified that movement of ABC (Activity Based Costing) experts between manufacturing companies in Norway, could possibly speed the diffusion and adoption of ABC. The second type of diffusion is described as ‘expansion’ diffusion, where the innovation is adopted by an increasing number of adopters. The present study concerns the latter type of diffusion as it focuses on the number of public sector organisations rather than people as adopters of accounting innovation.

Expansion diffusion assumes two major forms: ‘contagious’ and ‘hierarchical’. In the first category, the spread is smooth and continuous. Contact with earlier adopters and the quality of communication channels are important factors in this form of diffusion process (Bjørnenak, 1997). Diffusion occurs across the organisation is considered as contagious. Korteland & Bekkers (2007)
examined the diffusion of e-government innovation across the Dutch police forces which found that many police forces—especially the smaller ones—waited for the results of the Midden-and West-Brabant (large police) before they decided on adopting SMS-alert. A hierarchical diffusion process is characterised by a trickling down process from large to intermediate or small units. The hierarchy may be defined differently. This study concerns the hierarchical type of diffusion which better describes the diffusion of accounting innovation from Central Government to Provincial Government to Local Government.

Rogers (1983) explained that if the direction of the diffusion is top-down whereby the innovation moves from the expert to local users, it is considered to be a centralized diffusion process. In centralised diffusion, the innovation originates from top level experts. The innovation introduced into the Sri Lankan public sector is decided by top level government personnel and experts. However, in terms of decision-making and power, there is wide sharing of power and control among the members of the diffusion system. This is particularly so in both Central and Provincial Governments that are characterised by a greater diffusion system. Even though there are clear distinctions between centralized and decentralised diffusion systems, in reality, an actual diffusion system is usually a combination of the elements of a centralized and a decentralised diffusion system (Roger 1983). This is the case with diffusion of accounting innovation throughout Sri Lankan public sector organisations.

3.3 Elements of diffusion

Diffusion occurs when an innovation is communicated through certain channels over time among the members of a social system. The definition itself indicates that there are four main elements in every diffusion process. The four elements are:

1. An innovation to be diffused (innovation)
2. A population of potential adopters and their decision-making process (social system)
3. Time
4. The flow of information about the innovation from the innovator to the adopter (communication channel)

These elements are identifiable in diffusion research studies, and in various diffusion campaigns or programs. The following section outlines the main concepts and viewpoints regarding the elements that comprise DOI.

3.3.1 The innovation

An innovation is the successful introduction of ideas, perceived as new, into a given social system (Shepard, 1967). It is essential that as long as it is recognized as new in a given area or social group, it may be viewed as an innovation. This means that it may have existed earlier in another area or in the same area but in a different form. The definition is broad enough to be applied to phenomena such as television sets, rumours and cost accounting principles. It is not essential that the idea be new; only that it is perceived as new by an individual or unit of adoption. Newness is very subjective. As far as human behaviour is concerned, whether or not an idea is “objectively” new is measured by the lapse of time since its first use or discovery. If the idea seems new to the individual, it is an innovation (Rogers, 1995b). The newness of an innovation need not just involve new knowledge. Someone may have known about an innovation for some time but not yet developed a favourable or unfavourable attitude towards it, nor have adopted it (Rogers, 1995b).

From this perspective, the introduction of accrual accounting into the Sri Lankan public sector is considered as an accounting innovation. Although the elements of accrual accounting and public sector accounting standards are found in other developed and developing countries, it is a new idea to the Sri Lankan public sector organisations. Some government officials may have had prior knowledge about accrual accounting and standards, but may not have formed a favourable or unfavourable attitude toward its adoption by their organisation. Therefore, accrual basis accounting
practice and standards, discussed in Chapter 2, are considered to be an innovation for the purpose of this thesis.

Shepard (1967) described innovation as being: “when an organization learns to do something it did not know how to do before, and then proceeds to do it in a sustained way, a process of innovation has occurred (p.470).” It is not necessary that an innovative idea represent new knowledge; it might have been known to an individual, without him/her having developed a favourable or unfavourable attitude toward it (Rogers 1983). From this perspective, the introduction of accrual accounting and standards into the Sri Lankan public sector is considered as an innovation even though individuals had prior knowledge about the accrual basis accounting concept.

Innovation creates a kind of uncertainty in the minds of potential adopters (about its expected consequences), as well as representing an opportunity for reduced uncertainty in another sense (that of the information base of the innovation) (Rogers, 1995b). The uncertainty reduction through information embodied in the innovation itself represents the possible efficacy of the innovation in meeting an individual’s perceived need; this perceived benefit motivates individuals to learn about the innovation. Once such information-seeking activities have reduced the individual’s uncertainty about the innovation’s expected consequences to a tolerable level, a decision concerning adoption or rejection will be made (Rogers, 1995b). Thus, the innovation-decision process is essentially an information-seeking and information-processing activity in which the individual is motivated to reduce uncertainty about the advantages and disadvantages of the innovation.

3.3.1.1 Characteristics of innovation

Why do certain innovations spread more quickly than others? And why do others fail? Diffusion scholars recognise five characteristics of an innovation that determine its success. The five characteristics of innovation, as perceived by individuals, help to explain their different rate of adoption. These characteristics are: relative advantage; compatibility with existing values and
practice; simplicity and ease of use; trialability; and observable results as shown in Figure 3.1. The success of an innovation depends on how well it evolves to meet the needs of more and more demanding and risk-averse individuals in a population.

![Figure 3.1: Rogers’ characteristics of an innovation]

The *Relative advantage* of an innovation refers to the extent to which the new idea is better than the one it is replacing. Relative advantage can be measured in terms that matter to the users, such as economic advantage, social prestige, convenience, or satisfaction. It does not matter so much whether an innovation has a great deal of “objective” advantage. What does matter is whether an individual perceives the innovation as advantageous (Rogers, 1995b). The greater the perceived relative advantage, the more rapid is its rate of adoption likely to be.
Compatibility is the level to which an innovation is perceived as being consistent with values, past experience, and the needs of potential adopters in a given social system. An innovation will not be successful if it is not compatible with the values, norms and practice of the social system. A smoother transition in the social system allows a rapid adoption and acceptance of the new idea. Perera et al. (2003b) identified that incompatibility of an innovation appears to have significant explanatory power in the abandonment of transfer pricing in 1995. This is because the values, norms, and culture at the time of its introduction in 1991 were not conducive to the crucial secondary stage of adoption of the innovation by users.

Complexity refers to the difficulty for an adopter to understand and use the innovation. Some innovations are readily understood by most members of a social system; others are more complicated and will be adopted more slowly. New ideas that are simpler to understand are adopted more rapidly than an innovation requiring the adopter to develop new skills and understanding.

Trialability is the degree to which an innovation may be experimented with on a limited basis. New ideas that are trialled on an instalment plan will generally be adopted more quickly than innovations that are not divisible (Rogers 1995). An innovation that is trialable reduces uncertainty for the individuals who are considering the adoption, because they learn about the innovation by doing.

Observability is the degree to which individuals see the results of an innovation. The easier it is for individuals to see the results of an innovation, the more likely they are to adopt it. Such visibility stimulates peer discussion of a new idea, as friends and neighbours of an adopter often request innovation-evaluation information about it.

Reinvention is a key principle (or outcome) in the diffusion of innovation. As previously stated, the success of an innovation depends on how well it is able to reinvent the innovation so that it becomes more appropriate for the needs of the adopter individuals and groups. The history of the mobile phone is one such example. A good way to achieve this is to make users into partners in a
continuous process of redevelopment. Computer games companies and pharmaceutical corporations are examples of organisations that seek to make users active partners in improving innovations by supporting user communities or by applying participative action research techniques.

Given that an innovation exists, communication must take place if the innovation is to spread beyond its inventor. In the next section, this second element of diffusion is discussed.

### 3.3.2 Communication channels

Communication is the process by which participants create and share information with one another in order to reach a mutual understanding (Rogers, 1995b). Diffusion is a particular type of communication in which the information that is exchanged is concerned with new ideas. The essence of the diffusion process is the information exchange by which one individual communicates a new idea to one or several others. Rogers (1995b) states that, in its elementary form, the communication process involves: (1) an innovation, (2) an individual or group that has knowledge of or experience with using the innovation, (3) another individual or other unit that does not have knowledge of the innovation, and (4) a communication channel connecting the two units. Communication channels are the means by which messages are conveyed from one individual to another, and the individual determines the condition under which the source will or will not transmit the innovation to the receiver, and the effect of the transfer.

The essence of communication in the diffusion of innovation theory is how one individual communicates values and attributes of an innovation to other members of the social system, in order to persuade them to adopt the innovation. Communication can occur through mass media or interpersonal channels. Interpersonal channels involve a face-to-face interaction between two or more individuals regarding an innovation and appear to be more successful in the persuasion process. Mass media channels are more effective in conveying knowledge about innovation,
whereas interpersonal channels are more effective in forming and changing attitudes toward a new idea, thereby influencing the decision to adopt or reject a new idea.

A crucial element in the diffusion and adoption of new practice and techniques within organisations is the internal and external networks through which potential adopters learn about innovations that are relevant to their organisations’ requirements. Alter and Hage (1993) define such networks as “bounded or unbounded clusters of organisations that constitute a basic social form that permits inter-organisational interactions of exchange, concerted action and joint production”. Therefore, this network can be interpreted as being the process of maintaining the exchange of information and expertise to develop innovative practice that enhances organisational performance and reduces uncertainty. Rogers (1995) posits that interpersonal networks are central to the diffusion of innovation as they permit information to be communicated across organisational boundaries.

3.3.3 Time

The time dimension is an important element in the diffusion process because it can explain both the innovation-decision process over a certain period, and the behaviour of the innovation adopter based on the innovativeness. According to Rogers (1995), the time dimension is involved in the diffusion process in three ways:

1) The innovation-decision process when an individual moves from the first-knowledge of an innovation through to its adoption or rejection;

2) How early or late a person enters the adoption system (innovativeness); and

3) The innovation’s rate of adoption in the system

The innovation-decision process is the process through which an individual passes from first-knowledge of an innovation to design-innovation, the decision to adopt or reject, to implementation and to confirmation of decision (Rogers, 2003, Rogers, 1995b). Rogers (2003) identified five stages in
a diffusion trajectory: (1) first knowledge of the innovation; (2) forming an attitude toward the innovation (persuasion); (3) a decision to adopt or reject; (4) implementation of the new idea; and (5) confirmation of this decision (Please see figure 3.2).

Later, this model was further elaborated by Ezzamel et al. (2014) in their study of the use of resource accounting and budgeting (RAB) in the UK central government. According to Ezzamel et al. (2014), the diffusion process begins with 'prior conditions', which include, among others, the recognition of problems and defects within the existing practice, as well as the desire to be innovative and adopt modern practice. The presence of these conditions plays a key role in determining the receptivity of a specific context to an innovation. An individual seeks information at various stages in the innovation-decision process in order to decrease uncertainty about an innovation.

![Diagram of diffusion process](image)

**Figure 3.2 – Diffusion of an innovation process (Source: Rogers, 1995)**
*Knowledge* occurs when person becomes aware of an innovation and acquires some idea of how it functions. In this stage, individuals attempt to reduce uncertainty about the cause and effect relationship related to the innovation’s capacity to solve their problem(s) or address their need(s). At this stage, an individual wants to know what the innovation is, and how and why it works. Mass media channels are the main means used to introduce an innovation to a community.

*Persuasion* occurs when a person forms a favourable or unfavourable attitude toward the innovation. At the persuasion stage, an individual seeks innovation-evaluation information in order to reduce uncertainty about an innovation’s expected consequences. Here, an individual wants to know the innovation’s advantages and disadvantages as they apply to his or her own situation. Interpersonal communication via peer networking is particularly effective in conveying such evaluative information about an innovation. During this stage, the change agent is often introduced into the process. A change agent is an individual who influences the potential adopter regarding the innovation. This individual is a very powerful person in the process who can persuade the potential adopter to accept or reject the innovation.

A *Decision* takes place when a person engages in activities that lead to either adoption in order to make full use of an innovation, or to reject the innovation. Such decisions can be reversed at a later stage; for example, an innovation may be adopted after it had previously been rejected. It is also possible for an individual to discontinue the innovation after having adopted it. The innovation-decision can be categorized into three types: (1) *Optional*: an individual flexibility; (2) *Collective*: a balance between maximum efficiency and freedom; and (3) *Authority*: it yields a high rate of adoption, but produces high resistance.

*Implementation* occurs when the person puts an innovation into use. This stage involves an overt behavioural change.
Confirmation occurs when a person evaluates the results of an innovation-decision already made. The adopter may reverse the adoption decision, if s/he is exposed to conflicting messages about the innovation based on the evaluation result. These six phases of the diffusion-adoption framework were adapted for data collection and data analysis processes to examine the impact of diffusion variables on the success of innovation adoption.

Innovativeness is the degree to which an individual accepts the innovation early by adopting new ideas more readily than other members of a social system. No two individuals in a social system adopt an innovation at the same time. There are five adopter categories, or classifications of the members of a social system on the basis of their acceptance and adoption of innovation: Innovators, Early Adopters, Early Majority, Late Majority, and Laggards (see Figure 3.3).

Figure 3.3: Innovation adopter category (Rogers 1995)

Innovators are represented by the first 2.5 percent of individuals in a system to adopt an innovation. The innovator plays an important role in the diffusion process: that of launching the new idea in the system by importing the innovation from outside of the system’s boundaries. Their interest in new ideas leads them out of a local circle of peer networks and into more cosmopolite social
relationships. Communication patterns and friendship among a clique of innovators are common, even though the geographical distance between the innovators may be considerable. The innovators are able to understand and apply complex technical knowledge and able to cope with a high degree of uncertainty about an innovation at the time of adoption.

The Early Adopters represent the next 13.5 percent of the individuals in the system to adopt an innovation. Early adopters are a more integrated part of the local system than are innovators. Whereas innovators are cosmopolites, early adopters are localities. This adopter category, more than any other, has the greatest degree of opinion leadership in the social system. Potential adopters look to early adopters for advice and information about the innovation. This category is generally sought by change agents as a local missionary for speeding the diffusion process.

The Early Majority is the next 34 percent of the individuals in a system to adopt an innovation. This group will adopt an innovation a little earlier than the average person will and is more likely to deliberate about the innovation’s usefulness prior to acceptance. The early majority interact frequently with their peers, but seldom hold positions of opinion leadership in a system.

The Late Majority is the next 34 percent of the individuals in a system to adopt an innovation. The late majority make up one third of the members of the system and adopt an innovation later than their early adopter counterparts do. Adoption may be the result of increasing network pressures from peers. For this group, the pressure of peers is necessary to motivate adoption.

The Laggards are the last 16 percent of the individuals in a system to adopt an innovation. They possess almost no opinion leadership. Laggards tend to be suspicious of any innovation, and they take a great deal of time to decide whether to adopt. They are almost isolates in the social networks of their system and their resources tend to be limited.

Rate of adoption is the third way in which time is involved in diffusion. The rate of adoption is the relative speed with which an innovation is adopted by members of a social system. The rate of
adoption is usually measured by the length of time required for a certain percentage of the members of a system to adopt an innovation (Rogers, 1995b). When a number of individuals adopting a new idea are plotted on a cumulative frequency basis over time, the resulting distribution is an s-shaped curve. At first, only a few individuals adopt the innovation in each time period; these are the innovators. Then the trajectory of the rate of adoption begins to level off, as fewer and fewer individuals remain who have not yet adopted. Finally, the s-shaped curve reaches its asymptote, and the diffusion process is finished.

There are also differences in the rate of adoption of the same innovation in different social systems. This indicates that diffusion cannot be explained only by the nature of individual behaviour. The system has a direct effect on diffusion, and also an indirect influence through its individual members. What is a social system?

### 3.3.4 Social system

The fourth element in the diffusion of new ideas is the social system. A social system is defined as a set of interrelated units that are engaged in joint problem solving to accomplish a common goal. The members or unit of social system may be individuals, informal groups, organisations, and/or subsystems (Rogers, 2003, Rogers, 1995b). The social system constitutes a boundary within which an innovation is diffused. The social system in the context of this thesis is represented by the public sector structure of the Government of Sri Lanka throughout which accrual-based accounting standards were diffused.

The social structure of the system affects the innovation diffusion in several ways. One is how the system’s social structure affects the diffusion process. To the extent that the units in a social system are not all identical in their behaviour, structure then exists within the system (Rogers, 1995b). Structure is the patterned arrangements of the units in a system. This structure gives regularity and stability to human behaviour in a social system. The structure of a social system can facilitate or
impede the diffusion of innovation in the system. Bureaucratic organisations such as government bodies have well developed social structures as they consist of hierarchical positions, giving higher-ranking officials the right to issue orders and make decisions on behalf of those of lower rank.

A second area of research involves how norms affect diffusion. Norms are the established behaviour patterns of the members of a social system. They define a range of tolerable behaviours and serve as a guide or a standard for the members of a social system. However, a system’s norms can be a barrier to change. For example, in India, sacred cows roam the countryside while millions of people are undernourished. Polished rice is eaten in most Asian countries, even though whole rice is more nutritious. These are examples of cultural and religious norms. Norms can operate at both national and organisational levels.

In understanding the different roles that certain individuals play in a social system and the effect of these roles on diffusion, opinion leaders and change agents become important. The opinion leader provides information and advice about innovation to many in the system. Opinion leadership is the degree to which an individual is able to influence informally other individuals’ attitudes in a desired way with relative frequency (Rogers, 1995b). It is a type of informal leadership, rather than a function of the individual’s formal position in a system. A change agent is an individual who attempts to influence clients’ innovation decisions in a direction that is deemed desirable by a change agency. Change agents are often professionally qualified in this field.

3.6 Empirical evidence on DOI

DOI research is more often applied in the disciplines of information systems and technology (Kamal, 2006, Gallivan, 2001, Robertson et al., 1996, Swan and Newell, 1995, Midgley et al., 1992, Rogers, 2004, Geroski, 2000). Research on IT innovation adoption and diffusion seeks to explain target adopters’ attitudes and their innovation-related behaviour. Gallivan (2001) explained the two-stage adoption process followed by organisational consequences. The top-level authorities (or external
parties) identify the problems, decide the necessity for changes, analyse the possible innovations that will match their objectives, and then they make the primary adoption decision. This is consistent with Rogers (2003) initial stage of the adoption process, where activities include agenda-setting and then matching an innovation to the problem, which precedes the firm’s adoption decision. Once the primary stage has been completed, managers proceed to the next stage, called the secondary adoption and organisational assimilation process. Secondary adoption refers to adoption at the individual level. Gallivan’s (2001) two-stage adoption model was limited to the diffusion process within an organisation and the factors associated with the individual adoption process.

Kamal (2006), discussed the IT innovation adoption process in government sector organisations, similar to the model introduced by Gallivan (2001), except that it did not include organisational consequences. The pre-adoption process occurs at the organisational level, which starts with motivation. Motivation occurs when an organisation becomes aware of a specific innovation and acquires knowledge about the innovation. Conception refers to a plan of action that the organisation should pursue. The proposal represents a formal proposition for innovation adoption. Then, at department level, a decision is made to adopt an innovation; hence, the adoption decision is considered as the pre-adoption stage.

The post adoption stage occurs at the individual level where the target behaviour is the continuous usage of the innovation (Kamal, 2006). This stage includes the confirmation of the innovative idea, user acceptance of the innovation and actual use of the innovation. However, this model did not discuss the organisational consequence(s) of innovation. If there is no possible outcome linked with any model, it is hard to ascertain the success of an innovation. The adoption itself is not necessarily a good measure of innovation in terms of effective usage of technology (Swan and Newell, 1995). Both Gallivan (2001) and Kamal (2006) examined innovation diffusion and individual adoption within organisations (demand side of diffusion).
Robertson et al. (1996), considered the diffusion of computer-aided production management (CAPM) technology in the UK manufacturing sector during the mid to late 1980s, focusing on the role of inter-organisational networks in the diffusion process. Inter-organisational networking can be used to promote a particular innovation (CAPM in this case) by the technology supplier as best practice and at the same time potential adopters can learn about relevant technologies. This study adopted a process-orient approach, which considered the diffusion by describing the sequences of events over time. It sought to explore the nature of this relationship among social actors within inter-organisational networks and to ascertain the factors that influenced adoption. Outcomes, in terms of the relative success or failure of implementation, were clearly established at the time of research and used to anchor the discussion of antecedent events and the role of particular networks. The primary research methodology relied on semi-structured interviews with the personnel involved in the decision-making process leading to the implementation of CAPM in three manufacturing companies. The decisions regarding adoption, design and subsequent implementation were explored in order to establish the influence of inter-organisational networks on the diffusion. This study revealed that potential adopters engaged in a range of inter-organisational networks through which they learned about new technologies. However, the knowledge diffused through many of these networks was shaped by technology suppliers who were promoting similar ideas about best practice.

Similar work was carried out by Midgley et al. (1992) who examined the nature of the communication network that exists between adopting organisations, the supplier, and third party to adopters in the industrial diffusion process. This study investigated the impact of various network topologies of communication and alternative models of social contagion on observed adoption patterns. They used a simulation model to test the effect of the communication link on the diffusion pattern, and an empirical field study to examine the prevalence of such link in one specific industry (life insurance industry in Australia). This study selected 32 major companies in this industry and two innovations to investigate: the facsimile machine and personal computer network. The respondents
were senior managers in charge of purchasing these technologies and the questionnaire was administered by mail with telephone follow-up. The simulation finding suggests that network structure can have a substantial effect on the manner in which innovations diffuse; communication through third parties does not change the shape of the diffusion process, but it may alter the places in the process. The empirical study shows strong evidence of imperfect mixing, that both pre-existing and innovation specific communication links are used, and that communication through a third party may be just as important to the diffusion process.

In the diffusion process, many directly or indirectly involved parties are connected throughout this process. An important part of the diffusion process involves the diffusion of knowledge and information that allows people in firms to think of new ideas about technological development (Swan and Newell, 1995). A professional association is an important player in the diffusion process of knowledge. Swan and Newell (1995) examined the relevance of a professional association in the diffusion process, using the example of a specific technological domain—production and inventory control (PIC). The research investigated a professional PIC association in Canada. This study collected both qualitative and quantitative data from members of the Canadian Association of Production and Inventory Control (CAPIC) to test the role of the professional association in the diffusion of knowledge needed by firms to adopt new PIC technologies. Qualitative data was collected during a field trip, while quantitative data was collected using a detailed questionnaire to survey CAPIC members. The findings suggest that a professional association can act as a vehicle for the diffusion and translation of knowledge needed for innovation, and can influence the innovation process more directly by disseminating a particular body of knowledge to industry via their members. The findings are consistent with those of other studies that suggest that firm size and technological strategy are important predictors of technological innovation. Large firms may have more financial resources and expertise needed for technological innovation.
When the advanced information systems and technology are diffused throughout organisations, associated administrative change needs to occur if the technological advancement is to be implemented successfully. Research conducted by Smith et al. (2008) examined whether the degree of technological advancement in organisations in Malaysia influences the application of management accounting practice. The fundamental aim of this research was to develop an improved understanding of management accounting innovation in Malaysia and investigate the characteristics of innovations, which influence their adoption. Smith et al. (2008), explored the association between technological innovation and accounting innovation adoption, organisational size with both technological and accounting innovation, and whether the attributes of innovation are important to management accounting practices. Their findings suggest that the levels of adoption for management accounting innovation remain low, with most companies using traditional and quantitative management accounting practices. The paper supports the suggestion that ‘relative advantage’ is the major factor determining the adoption of both technological and accounting changes. A significant positive relationship was found, supporting the association of technological innovation with both organisational size and the current level of accounting practices.

Most studies on diffusion in accounting have been limited to private sector organisations, which nevertheless may= provide useful insights for the public sector. An interesting feature of the development of management accounting practices is that they seem to be concentrated within the industrialised areas of the world (Granlund and Lukka, 1998). In particular, this seems to apply to new ideas in management accounting. The harmonisation of management accounting practice is a result of a number of different diffusion processes that are attracting increasing attention in management accounting research (Ax and Bjørnenak, 2005, Bjørnenak, 1997, Malmi, 1999). Bjørnenak (1997) looked at the spread of ABC across the Norwegian manufacturing industry. He described three types of diffusion processes. The first relies upon skilled workers moving about and causing change. Contagious diffusion, on the other hand, occurs when information is spread in a smooth and random way. Hierarchical diffusion occurs when information is dispersed through a
trickle-down process. Bjørnenak found that ABC was more common in firms experiencing less competition, and with lower product diversity, than their adopter counterparts. Thus, he reported weak correlation between the demand for information by organisations and the adoption rate.

In a similar vein, Malmi (1999) explored ABC diffusion throughout Finnish firms, building on a conceptual matrix by Abrahamson (1991). Most adoptions are assumed to occur because of the benefits and efficiencies gained through implementation. However, Abrahamson adds three other perspectives to this ‘efficient-choice’ selection. ‘Forced’ selection results if a supplier has influence over all interested parties; therefore, the motive(s) of the adopter may be irrelevant to the implementation. The ‘Fashion’ perspective is applied when many potential adopters are implementing the innovation yet still retain a choice of whether or not to implement. The ‘Fad’ perspective relates to organisations adopting a technique in order to appear legitimate and retain competitive advantage, rather than for reasons that are more rational.

In order to understand the supply side, Ax and Bjørnenak (2005) examined how the BSC concept has been communicated in Sweden’s market. The empirical finding shows that the original BSC presented by Kaplan and Norton has been supplemented with other administrative innovations and adapted to the existing business culture to create a potentially more attractive set of elements. They have identified three elements that the propagators of the BSC include in their Swedish BSC package, in order to make the innovation more attractive to a potential adopter market. Ax and Bjørnenak (2005) recognised that combining BSC with other ideas can attract more potential adopters in the diffusion of the BSC in Sweden.

Within the public sector, the issues of diffusion of accounting practices have assumed a new importance, given the range of reforms of institutions and modifications to existing practices. The diffusion process identified when explaining the diffusion trajectory was adopted for the data collection and analysis processes and throughout the thesis in order to understand the mechanisms involved in the diffusion process of accrual basis standards and accounting practice in Sri Lanka. The
next chapter provides more evidence from the literature pertaining to public sector reforms where diffusion has been adopted.

3.7 Chapter summary

This chapter explained the diffusion theory in order to provide an understanding of the innovation and diffusion process. The first section described the typological background of diffusion to show how diffusion theory has evolved over time. Several independent research traditions have studied the diffusion of innovation: anthropology, geography, and sociology have a long tradition of trying to understand present behaviour in terms of patterns of diffusion of techniques and ideas from source societies to their present distributions. Critics claim that this tradition has tended to focus on descriptive history as inferred by patterns of similarity (diffusionism) and has neglected causal processes.

In order to provide a better understanding of the elements of diffusion, this chapter described the four main elements of innovation, communication, time, and social system, and their influence on diffusion. An innovation is a new idea which is communicated to a given social system over time. Innovation has five characteristics that determine its success: relative advantage, compatibility, complexity, triability and observability. Communication is the process of exchanging and sharing a new idea among the individuals in the diffusion process and they decide the channel for sending and receiving information about the new idea. An individual seeks information throughout the process in order to reduce uncertainty about an innovation over time. Rogers (1995b) highlighted five stages of the innovation-decision process: knowledge; persuasion; decision; implementation; and confirmation; an individual seeks different information at different stages. The social system is a set of interrelated units that are engaged in joint problem-solving to accomplish a common goal. It can be individual, informal group, organisations, and/or subsystem. The structure and norms of a social system affect the diffusion process. The opinion leader and change agent is an individual who plays a
special role in the diffusion process as s/he attempts to influence individuals’ attitudes or behaviours in a desired way.

Rogers (1995b) recognised various diffusion factors which may affect the diffusion process and determine the success of an innovation. The diffusion variables/factors, and the process for determining the success of innovation are illustrated in Figure 3.4 below.

**Figure 3.4: Diffusion factors and diffusion process to determine the success of innovation**

The degree of influence and significance of diffusion factors on the diffusion process may vary based on individual and organisational variables, even with the same innovation. For example, a single innovation might be quickly adopted by one group of individuals while another group may take a
longer period to adopt the same innovation despite the two groups having a similar background.

The introduction of accrual basis accounting and standards into the Sri Lankan public sector is considered to be an innovation for the purpose of this thesis which examined the top-down diffusion process of innovation in order to understand the critical success factors of diffusion. Different levels of government organisations (Central, Provincial and Local) may have different structures, norms, even leadership and change agents with different opinions. This study adopted an exploratory research approach in order to examine and understand the role of diffusion factors in different levels of government organisations which could determine the success or failure of innovation.
CHAPTER FOUR

LITERATURE ON PUBLIC SECTOR REFORMS

“NPM appears much broader than NPFM—but such appearances can be deceptive” (Guthrie et al. 1999, p. 211)

4.1 Chapter overview

Public sector management has been under increasing scrutiny resulting in innovative reforms of the governance mechanisms. The period after 1980 witnessed an unending wave of public sector reform in both developed and developing countries (Pollitt and Bouckaert, 2004). This chapter presents the review and analysis of relevant literature on public sector reform, giving particular attention to public financial management reforms in developing countries.

The chapter is structured as follows: the next section provides a brief analysis of public sector reform literature from the New Public Management (NPM) perspective. The third section presents the analysis of public sector reform literature from New Public Financial Management (NPFM) perspectives which included the elements of NPFM. The fourth section identifies the challenges of public sector reforms in developing countries, especially in Sri Lanka. The fifth and final section discusses the introduction of financial accounting innovation in line with NPFM reforms and its diffusion process in terms of the theoretical perspective.

4.2 New Public Management (NPM) reforms

Public Management (PM) refers to the process by which the management of government resources begins to resemble private-sector management in some important ways. Public management reform consists of deliberate changes to the structures and processes of public sector organisations with the objective of managing these organisations more efficiently (Pollitt and Bouckaert, 2004). The major
concern is how best to make use of (scarce) resources in the pursuit of agreed objectives. The central object of public management is efficiency and accountability, combined with effective, and sustainable outputs delivered to ensure long-term impacts on the needs of the community served by public sector organisations (Edoardo, 2009). Various paradigms have emerged in order to reform the role of public sector, one of the most notable models being the “new public management” (NPM). At its most basic, NPM is a shopping list of management instruments from which the government and their agencies can select those instruments suitable to their needs (Pollitt and Bouckaert, 2004).

The NPM development began in the late 1970s and early 1980s under the British Prime Minister, Margaret Thatcher, and in some municipal governments in the US, under pressure from economic recession and tax revolts (Groot and Budding, 2008). The traditional model of public administration was criticised on two grounds. The first set of criticisms centred on major economic problems such as government becoming too large, consuming too many scarce resources, growing inflation, excessive costs and excessive bureaucracy (Sarker, 2006). The second set of criticisms related to the model of public administration, seeing it as inefficient, costly, rigid, corrupt, unaccountable and unsuitable as a dynamic model of social and economic development (Sarker, 2006). Consequently, these criticisms paved the way for the emergence of a new public management model.

The goal of NPM was to introduce private sector management styles to the public sector and create private sector competition among public sector organisations in order to maximise the use of (scarce) resources to produce best output or outcomes in serving public interests (efficiency). This involves a series of processes and NPM is the common term for a collection of key processes aimed at reforming the organisation and procedures of the public sector in order to make it more competitive and efficient in terms of resource use and service delivery (Falconer, 1997).


Various scholars have offered different definitions of the term ‘NPM’. For example, Hyndman and Connolly (2011), considered NPM to be a collective term used to classify broadly similar public sector reforms that have been introduced in many Organisation in Economic Co-operation and Development (OECD) countries. Lapsley (2009) defined NPM as an influential set of management techniques drawing on private sector performance criteria and practices. Despite the various definitions of NPM, they have several common features. These features include the adoption of private sector managerial techniques, the development of market mechanisms, and the break-up of the government into smaller quasi-autonomous units. The two key concepts of NPM are market and management. Market allows competition in the private sector, and in order to survive and win the competition, companies need to continuously search for better products and services produced at competitive cost. The public sector does not normally deal with competition as they have monopoly over some situations, and therefore they are not pressured to make continuous improvements. However, NPM proposes a number of ways to make public sector organisations more competitive. The concept of management refers to a separate and distinct activity that brings together plans, people, and technology to achieve desired results (Ehsan and Naz, 2003). Management is the professional way of dealing with problems of organisation and the optimal allocation of resources (Ehsan and Naz, 2003). NPM represents the new managerial way of organizing an old administration system.
The content of NPM has been conceptualized in various, but largely overlapping, ways. In one of its early formulations, Hood (1991) suggested seven elements of NPM practice. Sri Lanka has put some effort into adopting and implementing parts of Hood’s seven elements in administrative practice, unlike other developing countries in Asia. In later formulations, Osborne and Gaebler (1992) and Ferlie et al. (1996) identified nine elements of NPM, supplementing Hood’s early list with two interesting new elements. Rhodes (1999) suggested six elements but introduced new elements under the label of political control, which is more often visible in developing countries including Sri Lanka. Pollitt (2003) suggests eight elements of NPM (see Table 4.1).

### Table 4-1: Five formulation of the elements of New Public Management (NPM)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Hands-on professional management</td>
<td>Decentralized government: from hierarchy to participation and teamwork</td>
<td>Decentralization, organisational unbundling</td>
<td>Privatization- the sale of public assets to the private sector</td>
<td>From input and processes to output and outcomes</td>
</tr>
<tr>
<td>2 Shift to disaggregation of units into quasi-contractual or quasi-market forms</td>
<td>Catalytic government: steering rather than rowing</td>
<td>Split between strategic core and large operational periphery</td>
<td>Marketization- the use of market mechanism for the delivery of public service</td>
<td>More measurement and quantification</td>
</tr>
<tr>
<td>3 Shift to greater competition in public sector</td>
<td>Competitive government: injection competition in service delivery</td>
<td>Elaborate and develop quasi-market as mechanism for allocating resources</td>
<td>Corporate Management - introducing private sector management in the public sector</td>
<td>From hierarchical multi-purpose organisations to more flat, specialized and autonomous organizations</td>
</tr>
<tr>
<td>4 Stress on private sector style of management practice</td>
<td>Mission driven government: transforming rule-driven organisation</td>
<td>Split between public funding and independent service provision</td>
<td>Regulation - the 'audit explosion' refers to all types of internal and external regulation</td>
<td>From formal hierarchical relations to contracts</td>
</tr>
</tbody>
</table>
Even though there are seven dimensions of changes, it is unlikely that all countries adopt the same changes at the same level. Many variations are possible. There is no logical necessity for a public management system to change at once in all of these seven respects (Hood, 1995). Research indicates that some countries have implemented NPM reforms at a quicker pace and more enthusiastically than others. Hood (1995) identified several OECD economies, (Japan, German, and Switzerland) which have put less emphasis on adopting NPM reforms than countries like Australia, New Zealand, Sweden and the UK. Even within these countries, there is clear variation in the degree
of attention paid to the doctrine of NPM. For example, high adopter countries like New Zealand, Sweden, and the UK placed less emphasis on the use of private sector style management, hands-on management or output controls (Hood, 1995).

4.3. New Public Financial Management (NPFM) reforms

Under the umbrella of NPM, there has been widespread transformation of public sector accounting, budgeting and related management practices and techniques. This reform strategy is known as New Public Financial Management (NPFM) reforms where accounting plays a major role in the reform process. NPFM is used in several forms (noun and verb) and methodological approaches (Guthrie et al., 1999). NPFM may be used to imply ‘accrual accounting’, ‘performance indicators’, ‘delegated budget’, ‘devolved budget’, ‘full costs’, ‘output groups’, ‘outcome statements’, ‘accrual output based budget’, and ‘fiscal responsibility statement’ to name just a few in different report/articles (Guthrie et al., 1999). However, in practice, these terms are different in how they are applied and operationalized.

Public sector financial and management accounting reform over the last two decades has become a popular area of research. Hood (1995) maintained that accounting plays a central role in the reform process in the public sector and is the key to the success of this reform process. The literature on public management reform posits that without accounting development, public management reform would be a far less significant program (Guthrie et al., 1999). Likierman (1994), in his discussion of accounting reforms in the public sector, stated:

*The influence of management accounting techniques in central government has developed dramatically in the past ten years. From being at the fringes of administrative practice, such techniques are increasingly an essential part of key managerial development. There can be no doubt that these initiatives have required management accounting, sometime implicitly, sometime explicitly...and*
that without them implementation of the key reforms would not have been possible (Likierman 1994, p. 109).

The contribution of public finance to the effectiveness of the government mechanism cannot be derived from the application of a single formula. This effectiveness cannot be judged by a performance result like private sector measurement such as return on investment or return on assets. Consideration of the practice of management in government again results in contrasting interpretations of the impacts of, and techniques of, management accounting (Lapsley, 2000). Even with the same techniques applied to different contexts, the expected outcomes might be different. The selection of accounting techniques or practice for a particular scenario or context might be harder than adopting it, which directly affects the success of implication. The policy maker has a much tougher job, which may complicate the implementation of public sector accounting practices. The ideas which include accounting may be a factor in both advancing management accounting techniques as a solution to government problems and in articulating the critical response to financial management initiatives (Lapsley, 2000).

However, the NPFM application does not always guarantee positive results. There is the possibility of failure in most management accounting innovations, since it is difficult to graft private sector practices onto those of government without better understanding the environment and workings of the public sector (Lapsley, 2000). The outcomes of particular accounting techniques or practices cannot be predicted until such application is actually implemented and applied in practice. This process might be constrained by considerations of time and cost. The best possible solution for this is to initially implement at organisational level and move on. This is explained by Gallivan (2001) in his two-stage innovation adoption process: organisational level adoption and individual level adoption. This two-stage process gives managers time to think before total adoption of an innovation, which may save cost and time.
Despite the process of changing, new public financial management technologies believed to be accompanied by a wider range of promises and citizen expect improved public sector financial mechanisms, which attract local and foreign investors. Potential investors may be encouraged to invest in government entities, assist with government projects, provide consultation and advisory services in mega projects and proposals, and may even attract vote’s in general political election campaigns. It is true that advanced financial management techniques provide more accurate country financial information to decision makers, enabling them to make the best decisions. Moreover, these techniques provide greater transparency to public financial transactions and can more accurately indicate a country’s financial situation.

4.3.1 Elements of public financial management reforms

The NPFM reform process is expected to transform a budget-dependent bureaucratic governmental agency to a business-oriented commercialised agency operating in a competitive environment (Mir and Rahaman, 2007). In this transformation, there are five main transition areas classified within the NPFM reforms framework. Based on the experience of 11 nations, Guthrie et al. (1999), identified these five categories as characteristics of NPFM reforms.

1. Transition in financial reporting system includes the promotion of accrual-based financial statement across government departments and sectors and a reliance on professionally accounting set accounting standards.

2. The development of a commercially minded market-oriented system and structure is to deal with the pricing and provision of public services, emphasising cash management, contracting-out arrangement, and internal-external charging/pricing mechanism.
3. The development of a performance measurement system includes techniques such as financial and non-financial performance indicators, league tables, output and outcome performance measurement and benchmarking.

4. The devolution or delegation budget system, which is coupled with the integration of both financial and management accounting systems and economic-based information set. Reforms especially try to link budgets with the reporting of results in financial and non-financial terms.

5. Internal and external public sector audit—notably in terms of monitoring service delivery functions and providing reviews of the efficiency and effectiveness (‘value-for-money’) of public service, citizen charters and program evaluations.

Among these categories, the introduction of new financial reporting practice has been given much attention in academic research on NPFM techniques due to the increase in its application by most western public sector organisations (Harun and Robinson, 2010, Robinson, 1998, Christensen, 2002, Christensen and Parker, 2010, Hyndman and Connolly, 2011). NPFM reforms are believed to provide better value for money, improved accountability, better expenditure control (Boston et al., 1996), and enhanced accounting practice through commercial pricing, cash management and provision processes (Guthrie et al., 1999). The implicit assumption is that the private sector management techniques and practices are generally superior to traditional public sector approaches even though technical, social-cultural, and political problems may complicate the adoption process (Olson et al., 2001). This issue may lead to significant differences in development paths and attitudes toward NPFM reforms in different parts of the world, in terms of both strategy and content (Guthrie et al., 1999). Therefore, it is hard to generalise the success of particular accounting reforms process in one country to another. On the other hand, it cannot be concluded that the failure of a certain reform
process in one country as obsolete reform program or process. It might be successful in different context. However, in general, different countries might adopt different unique ways of reforming their public sector in line with NPFM.

4.4 Public sector reforms and challenges in developing country context

A number of studies have investigated the adoption of new accounting techniques in different governments and their agencies. Much attention has been given to English-speaking countries such as the UK (Likierman, 1994, Broadbent et al., 2001, Hyndman and Connolly, 2011), New Zealand (Boston, 2000, Boston, 1993, Boston et al., 1996), and Australia (Hoque and Moll, 2001, Parker and Guthrie, 1993, Guthrie, 1998, Carlin and Guthrie, 2003). In addition, several NPFM studies have focused on European countries that have implemented accounting reforms. For example, studies have been conducted on performance management practice in the Netherlands (Verbeeten, 2008), government accounting reforms in Finnish Municipalities (Christiaens and Peteghem, 2007), management accounting reforms in Norway public sector (Pettersen, 2001), process of accounting change and different outcome in two Italian local governments (Liguori and Steccolini, 2012), the adoption of accrual accounting system in Belgium government (Christiaens and Rommel, 2008) and accounting reforms in Greek universities (Venieris and Cohen, 2004). However, there are only a limited number of studies on accounting reform concerning the public sector in developing countries. These include studies on: Indonesia (Harun et al., 2012), Malaysia (Stiles et al., 2006), and South & Southeast Asian (Samaratunge et al., 2008).

Even though NPFM has been successfully applied in many western contexts, such reforms appear to be stronger in emerging countries (Stiles et al., 2006) due to the various constraints posed by levels of economic development. Therefore, it is questionable whether the western model of reforms works in non-western contexts to the same degree. A more extreme view is that emerging countries are unlikely to ever implement western-derived models successfully (Stiles et al., 2006). However,
the reform process in one country cannot be generalised to another country and therefore one cannot expect the implementation process to be the same. Therefore, the above argument is just a statement rather than a formula.

The fact is that implementation problems pose a more serious challenge for emerging countries than for the developed world. Batley (1999) highlighted these problems and claimed they remain unassailable in emerging countries because of entrenched lower levels of public management capacity, market development, resource, political inclusivity, legal effectiveness and environmental stability. Social, cultural and political factors are also believed to obstruct mostly NPFM reforms in emerging countries (Stiles et al., 2006). Culture and ethnicity influence personal and behavioural controls, budget participation, and reward systems (Efferin and Hopper, 2007). These can include personal beliefs and attitudes.

Long-serving traditional bureaucrats may regard changes to accounting practice as an affront to their knowledge of practice and a threat to their job security, which may be possible reasons for their resistance to reform. The political constraint in the public sector may explain why state-owned enterprises are slow to make the transition to more efficient forms of management (Venieris and Cohen, 2004). Venieris and Cohen (2004) concluded that the reasons for the slow implementation of accounting reform in Greek universities were: time pressure and time constraint, political short-termism, lack of commitment, lack of resources and bad planning.

Political commitment and leadership seem to be the most influential factors in determining the level of accountability in the public sector of developing countries (Samaratunge et al., 2008). On the other hand, political reforms and shifts in political power tend to influence accounting and management systems in the public sector generally (Mimba et al., 2007). In the Indonesian public sector, reforms to the accounting system changed after the Suharto regime collapse in 1998, as a result of shift in political power (Harun et al., 2012). However, even in the most developed countries,
even if government support is initially forthcoming, a lack of sustained political will can fail to maintain pressure on recalcitrant entities to continue accounting reforms (Wilenski, 1986).

In addition to that, flexible civil service, a strong legal framework, and effective regulatory bodies are a precondition for the successful adoption of NPFM reforms in any country, which is commonly absent in an emerging country (Samaratunge et al., 2008). It is believed that most accounting reforms in developing countries are the result of enormous pressure from international donor agencies (Adhikari et al., 2013, Sarker, 2006). International agencies are the main providers of funds for public sector reforms and they expect to have transparency in transactions. In the case of developing countries, the traditional accounting system is not rich with transparency and accountability. Hence, the implementation of changes to public sector accounting is a key objective of international organisations such as the ADB, WB and IMF.

A major problem in developing countries is the high level of corruption. All kinds of public transactions, major or minor, are subject to the payment of bribes in many countries (Polidano and Hulme, 1999). Curbing corruption has become major item on the agenda of the public sector reforms in developing countries (Polidano and Hulme, 1999). Most of the governments in developing countries have taken initial steps to set up an anti-corruption commission or ombudsman empowered to receive and investigate public complaints or allegations about corruption. However, such initiatives are usually under resourced, lack powers or have highly political supervision of their activities. In Hong-Kong and Singapore, such commissions are claimed to have all but eradicated corruption over the years since their creation (Sarker, 2006).

According to Mimba et al. (2007), NPM may be difficult to apply in developing countries due to differences in the characteristics of developing countries compared to developed countries. They identified four key factors which can influence NPM reforms in developing countries: low institutional capacity; limited involvement of stakeholders; high level of corruption; and high level of informality. A number of studies on developing countries highlight the same factors. Sarker (2006)
explored and analysed the factors influencing the relative success and failure of NPM in Singapore and Bangladesh. He identified the critical factors for the success of NPM-oriented reforms as being: the advanced level of economic development, the existence of a formal market economy, the rule of law, administrative infrastructure, and state efficiency. Largely, Singapore fulfils these conditions but Bangladesh is lagging behind and has implemented very few NPM initiatives. Sarker (2006) stated that developing countries must improve their technical, administrative, institutional and political capacity in order to achieve significant results from NPM initiatives.

Developing countries are highly dependent on foreign and local aid for their development process. In most cases, these donor agencies strongly influence the public sector reform process (Polidano and Hulme, 1999, Sarker, 2006, Adhikari et al., 2013). In most cases, donor agencies provide much of the funding for reform initiatives and therefore control the entire reform process. Governments are highly unlikely to reject a donor’s reform projects which could negatively impact on future donor assistance (Polidano and Hulme, 1999). There are mixed arguments about the role of the international donor agencies in reform programs. Academics argue that the western prescription of reforms does not help developing countries to perform well (Farazmand, 1998). North (1995) supported the view that Third World and Eastern European countries may not be able to implement the formal political and economic rules of western market economies because of their very nature, that is, their informal norms and enforcement characteristics.

On the other hand, the involvement of international donor agencies would give a country great opportunity to work with highly skilled personnel and access to advanced technology which would result in better reform outcomes. However, the introduction of new techniques and practices must take into account the local culture, values and environment. For this, leadership within the country and government is really important. Sarker (2006) pointed out that the World Bank study of 1996 proposed a comprehensive reforms program for Bangladesh but it received little attention from local political and bureaucratic leadership.
Adhikari et al. (2013) conducted a comparative study of Sri Lanka and Nepal using neo-institutional theory to understand the international organisations’ influence on less developed countries’ accounting reforms and institutional responses to international pressure. Their study found that while internationally-propagated public sector reform ideas have not gone beyond the trial/proposal stage in Nepal, the British colonisation of Sri Lanka has left a legacy that promotes accounting education/training, enabling the implementation of some reform ideas at the preliminary stage. Moreover, the authors recommended that further contextual study was necessary in order to understand the transition process better with regards to the role played by international organisations, consultants, professional accountants, and bureaucrats in achieving public sector accounting reforms. However, no study to date has attempted to examine the country’s recent attempts to reform its public financial management practice with the focus on how accounting innovation itself contributes to the reform process.

4.4.1 Public sector reforms and challenges in Sri Lanka

Despite the various reforms attempted by governments of developing countries, the major problems of corruption, politicisation of public service, and transparency and accountability issues in the public sector, still remain. These issues are also applicable to the Sri Lankan public sector. De Alwis (2009) identified four major problems in the public sector in Sri Lanka after a series of reforms attempted since the 1970s: the lack of delegation of authority, an oversized government with a huge Cabinet, corruption, and overstaffing of the public sector.

The lack of delegation of authority is a major problem. The 13th amendment (1987) to the Constitution of 1978 was introduced into the provincial council system to delegate the political and administrative power to local level; however, even today, adequate autonomy of decision-making in the areas of financial and human resources has not been granted to the provincial councils (De Alwis, 2009). The oversized government with a large number of public enterprises and ministries is another major problem for the Sri Lankan government. The current number of operational public
Corruption is a serious problem in Sri Lanka, particularly in government departments responsible for issuing licences, permits and deeds, revenue collection, and law enforcement (De Alwis, 2009). A bribery commission was established in 1994 to investigate allegations of bribery and corruption but the commission failed to investigate and bring about the successful prosecution of even a single significant case (De Alwis, 2009). In 2013, Transparency International ranked SL on Corruption Perception Index (CPI) at 91 out of 175 countries (http://cpi.transparency.org/cpi2013/results/). The public sector heavily suffers from political interference in the government decision-making process. However, the problem of corruption is not restricted to developing countries. Corruption can be found in both developed and developing countries alike (Samaratunge and Bennington, 2002). Deteriorating public sector transparency and trustfulness can cause a negative impact on foreign funds and foreign direct investment (FDI). The more important issue for this study is to consider the effect of public financial management reforms on the prevention of corruption and other problems preventing successful public sector reform in Sri Lanka.

Overstaffing is a major problem in the Sri Lankan public sector. Sri Lanka’s per capita employment in the public sector is the largest in South and East Asia: 57 per 1000 population (De Alwis, 2009). By the end of 2012, the total number of public sector employees was approximately 123,0398 excluding employees of semi-government agencies, accounting for approximately 15% of Sri Lanka’s labour force (Ministry of Finance and Planning, 2012). There is a serious problem with the process of recruiting to public service in most developing countries (Samaratunge and Bennington, 2002). The politicians use their legitimate power to recruit public servants. There is a tendency to use public
sector employment to please their political supporters (Samaratunge and Bennington, 2002). This has produced a public sector that is overburdened by wage payments and understaffed by qualified and skilled personnel. This is a critical issue when introducing innovative reform into the public sector. Samaratunge and Bennington (2002) posit that the country urgently needs more managers rather than administrators, with new competencies such as interpersonal and communication skills and IT knowledge to implement reform policies.

Samaratunge et al. (2008) discussed NPM reforms in two Asian countries: Bangladesh and Sri Lanka. In both countries, reforms were deemed unsuccessful due to the absence of strong political power and a weak accountability system. This finding was further validated by Samaratunge and Bennington (2002) in their study of NPM challenges in Sri Lanka. They found several obstacles to the smooth functioning of public sector reforms including a lack of coordination between different levels of government, an imbalance between the political institutions and the bureaucracy that allowed bureaucrats to formulate and implement public policies without appropriate political guidance, and a high degree of political influence (Wickramasinghe et al., 2004). These obstacles represent some of the factors influencing the successful adoption (or otherwise) of public management reform practices that have been attempted by the Sri Lankan government since the 1970s.

4.5 Introducing financial accounting innovation in line with NPFM reforms

Over the last few decades, the introduction of new accounting techniques and practices has become more common in many governments and their agencies around the world. Governments have introduced many private sector accounting reforms in both financial and management practice in order to improve government transparency and accountability. Regarding financial accounting, the introduction of accrual-based accounting is considered to be a significant tool for the improvement of the overall performance, accountability and transparency of an organisation (Harun et al., 2012, Christensen, 2002, Venieris and Cohen, 2004).
Accrual-based accounting practice was introduced with the presumption that the production and use of this new information would lead to decision-making that supports effective and efficient operations, as well as providing a better basis for the discharging of accountability (Connolly and Hyndman, 2006b, Upping, 2010). Most countries have introduced accrual-based accounting and it has become an international trend (Connolly and Hyndman, 2006b). Critics of cash-based accounting argue that it does not give an accurate picture of all the costs, does not show the use made of capital assets, and provides an incomplete record of what is owed and what is due. So the information produced by cash-based accounting is incomplete and often prevents a decision-maker from making the best decisions to achieve the most effective and efficient outcomes (Connolly and Hyndman, 2006b). This is a strong argument for the introduction of accrual-based accounting, which produces better information for decision-makers and costs that are more accurate.

Regarding the Australian public sector, Christensen and Parker (2010) state that the successful introduction of accrual accounting in New South Wales was an essential reform for effective reporting. In the UK public sector, accrual accounting was introduced to produce better information for decision-makers and more accurate costs (Connolly and Hyndman, 2006b). In Greece, the introduction of accrual accounting, cost accounting and budgetary system increased the efficiency and effectiveness of Greek public university administration (Venieris and Cohen, 2004). In the Indonesian public sector, the introduction of accrual accounting improved the quality of public sector reporting (Harun et al., 2012). In Belgium’s public sector, the implementation of accrual accounting has been successful in governments and departments that conduct business-like activities in hospitals, universities, parking facilities, harbours and the like (Christiaens and Rommel, 2008).

However, the adoption of accrual accounting by public sector organisations has also been criticised. Guthrie (1998) argued that accrual accounting is inferior and unsuitable for the public sector because profit is not a goal and therefore cannot be a relevant measure of performance; financial
structure and solvency are not relevant in the public realm; accrual accounting does not measure outcomes; and it provides a narrow idea of performance, focusing on cost of service and efficiency. The shift towards the comprehensive adoption of the accrual method of accounting is neither smooth nor immediate. Countries like Australia, New Zealand and the UK successfully introduced accrual accounting systems in their public sectors while countries such as Belgium, Greece, and Norway struggled to make such changes.

Hyndman and Connolly (2011) tracked the progress of the introduction of accrual accounting in the central government in the United Kingdom (UK) and Republic of Ireland (ROI) from the early 1990s. Even though both the UK and ROI introduced accrual accounting about 20 years ago, in the UK it was well embedded but in the ROI it was still in progress. The factors responsible for these different outcomes may include: weaker ideology and political commitment, lack of understanding of accrual accounting in central department, and different cultural beliefs. Christiaens and Rommel (2008) stated that government organisations have no business-like activities and therefore should not adopt accrual accounting. The analyses of the Belgian and the Finnish experiences of accrual accounting suggest different problems in relation to its adoption and implementation. Venieris and Cohen (2004) found that the accrual accounting in public universities in Greece had not progressed to a considerable extent since its introduction in 1996. They posited that the key factors necessary for the successful introduction of change were not present during the implementation stage.

4.5.1 Diffusion of accounting innovation from theoretical perspective

Several theories and concepts have been used by accounting researchers to explain the behavioural factors influencing the change process in accounting. Some have suggested a contingency model where change has been explained as a complex relationship between accounting and organisations (Christensen, 2002, Christensen and Parker, 2010). Others have used the institutional or neo-institutional perspective to examine accounting change as a response to internal or external organisational pressure that is coercive, mimetic or normative (Yapa and Ukwatte, 2015, Adhikari et
al., 2013). The latter group of studies see accounting change as being the result of the diffusion and/or adoption of accounting innovation by certain public sector organisations (Jackson and Lapsley, 2003, Lapsley and Wright, 2004).

The contingency model was originally developed by Luder (1992) after his investigation of government accounting reforms in nine countries (Germany, Denmark, the European Community, France, Sweden, UK & US). In his model, he identified stimuli relating to events that occur during the first stage of the innovation process, structural variables which are features of the social environment of the government in the public sector that influence the basic attitude of user and producer of information, characteristic of political administrative system and implementation barriers. Luder’s model was later revised and applied by many researchers (Christensen, 2002, Godfrey et al., 1996, Godfrey et al., 2001, Yamamoto, 1999) to understand the contingent variables that explain why accounting has changed in an organisation. This suggests that different factors may influence accounting change in different ways in different organisations.

This model was modified by Godfrey et al. (1996) for developing countries in their study of Kenya, Tanzania and Uganda’s accounting reforms. They introduced contingent variables related to the influence of international funding organisations and donor agencies. Godfrey et al. (1996) emphasised that developing countries might have changed their accounting system to meet international funding agencies’ requirements. This was done not only to comply with external demands or user requirements but also to improve their international reputation (Godfrey et al., 1996).

Christensen (2002) adopted this contingency model in his study to investigate the process of accounting change in the New South Wales Government of Australia. He focuses on the history of the reforms process and placed emphasis on the key actors of change. Christensen (2002) identified three groups of key actors: promoters, producers of information and users of information. Christensen’s model identified that stimuli for change can come from both inside and outside of an
organisation, and changes can be stimulated by either users of information or/and producers of information, and promoters of change play a very important role in the implementation stage of the change process. The same finding was confirmed by Christensen and Parker (2010). In their investigation of how promoters play a role in overcoming the inertia of public sector change resistance, the competition between the Treasury accountant and the economist, and the emergence of a private sector version of accrual accounting in preference to alternative reforms in the New South Wales Government.

Yamamoto (1999) applied the contingency model to Japanese local government and identified how different factors influence the need for different types of accounting change. The study examined the interrelation between internal and external pressures, and the accounting sub-system required to satisfy the needs of the preparers and users of the information. It identified reform drivers of accounting change, such as market pressure, performance pressure and accountability pressure.

The next theoretical approach to examine the government reforms process was the institutional (neo-institutional) theory. This view considers the role of accounting change within the organisation and how such changes are institutionalized. Institutional approaches, particularly the so-called ‘new institutionalism’ propagated by Meyer and Rowan (1977) and DiMaggio and Powell (1983), emphasize that organisations endeavour to adopt socially-accredited systems, procedures, practices and structure that are assumed legitimate in society regardless of their appropriateness. The concept of decoupling, which demonstrates the extent to which the rules and practices adopted from the external environment are distinct from actual organisational practices, has therefore become a central issue in institutional theory (Adhikari et al., 2013). A number of studies have used the institutional view to understand the pressure of public sector accounting reforms exported to organisations (coercive, mimetic or normative pressure or by cumulative pressure) and how these pressures lead to the institutionalization of accounting reforms (Adhikari et al., 2013, Harun et al., 2012, Ribeiro and Scapens, 2006, Brignall and Modell, 2000).
Adhikari et al. (2013) took the institutional perspective when examining the role and influence of international donor agencies, and other motives, in the dissemination of accounting reform ideas in both Nepal and Sri Lanka. The study demonstrated that although there was much influence from international trends and international consultants, the adoption of accounting reforms was determined by different motives in both countries.

Harun et al. (2012) undertook a case study to gain insight relating to the critical feature of the institutionalization process of the accrual accounting system in one Indonesian public sector municipality. Drawing on the Dambrin et al. (2007) institutionalization process model, this project investigated how techniques are developed, diffused, adopted and implemented as a social construct within an organisation. The study found that the ultimate diffusion of an idea throughout an organisation is led by new legislation but also influenced by the habits and histories of the Indonesian local context and was as a result decoupled in many respects from ideals, discourses and techniques established for it. Hence, institutional theory is an ideal framework for understanding the process of accounting change within an organisation and is dependent on internal institutional factors.

The previous public sector reform studies adopted different theoretical lens to examine and highlight the importance and causes of the accounting change process. However, these explanations either omitted or barely touched on the way that accounting innovations are developed and diffused throughout public sector organisations. Diffusion of innovation takes a radically different approach to most other theories of change. Instead of focusing on persuading individuals to change, it sees change as being primarily about the evolution or reinvention of products and behaviours so they become more appropriate to the needs of individuals and groups (Rogers 1983). Research based on the diffusion perspective seeks to explain how innovations are taken up in a population. This thesis adopted a diffusion framework to explain how accounting innovations are developed and presented to its intended adopters and how innovation attributes facilitate this process between innovator and
adopter. Some innovations may spread more quickly than others, and some may fail at first attempt. Diffusion scholars recognise the attributes and factors that influence adoption decisions.

In recent years, diffusion of innovation theory has been recognised as providing a useful perspective for understanding the adoption of new management accounting techniques across and within organisations (Bjørnenak, 1997, Malmi, 1999, Perera et al., 2003b, Northcott and France, 2005), and has therefore been proposed as an appropriate lens for considering the diffusion of management accounting practice in the public sector (Lapsley and Wright, 2004). Internationally, it is not unusual for new accounting techniques to be imposed on public sector organisations by official requirements and often under pressure to improve efficiency and performance (Jackson and Lapsley, 2003). In fact, Lapsley and Wright (2004) conclude that the imposed dissemination does not guarantee the successful diffusion of an innovation.

Diffusion is said to occur when an innovation technique has been adopted by an organisation; dissemination is distinguished by an absence of adoption of the relevant techniques (Lapsley and Wright, 2004). Organisations are continuously seeking updated innovations to adopt and implemented in order to improve their efficiency, effectiveness and productivity. In any organisation (public or private sector), accounting plays a key role in terms of growth, continuity and success of an organisation. Even though the accounting departments are service departments, without the information provided by them, it is difficult to run any organisation. If the organisation were a whole body, the accounting department would be the heart pumping blood throughout the whole body. Therefore, organisations are continuously looking for the most beneficial, advanced accounting techniques and practices to be adopted and implemented within their organisational capacity. In this respect, innovation encompasses management and financial accounting techniques, models, and practices.

Even though a number of accounting innovations have emerged, and been adopted and implemented, the exact reason for these changes and the way in which they have been
implemented are poorly understood. This is especially regarding the factors influencing and affecting the diffusion process as well as the impact of accounting change on other sectors or divisions of the business organisation. Therefore, academic research in management accounting has given significant attention to the diffusion of accounting innovation in recent years in both the private and public sectors, although less so to the latter because of its complexity. As mentioned earlier, research on diffusion offers insight into why particular techniques and practices may spread throughout an organisation, despite mixed evidence as to their usefulness or appropriateness to the organisation (Jackson and Lapsley, 2003). The fundamental aim of this research was to determine the extent to which the change in public sector accounting practices and techniques has led to improved outcomes.

Most studies into diffusion have been limited to mainly private sector organisations, which may nevertheless, provide useful insight for the public sector (Lapsley and Wright, 2004). Jackson and Lapsley (2003) examined the diffusion of accounting innovation in the public sector from a communication perspective, whereby diffusion is regarded as the exchange of information through formal and informal processes by accounting professionals and institution. In their work, they highlighted the importance of networking in the diffusion process. That study examined the key actors or influential persons who take part in the financial management in public sector organisations to elicit their views on the accounting techniques in use, and to acquire an understanding of the diffusion process of accounting innovation. The research was based on a survey of public sector accountants in Scotland. The study found that most of the accounting techniques had been recommended by government and therefore their adoption was forced by regulation, statute or exhortation. Although it was difficult to precisely determine the reasons for changes from the survey information, the researchers found that public sector organisations are under pressure to improve their efficiency, their budgetary process and flow of information to the public and other interested parties. This is a significant factor in the diffusion process.
Given that external pressure exerts a significant influence on the adoption of innovation, organisations have to consider the inter-organisational network in order to acquire the necessary knowledge to implement a new system. The diffusion literature suggests that an important part of the diffusion process involves the diffusion of knowledge and information that allow people in a firm to think of new ideas about accounting development (Swan and Newell, 1995). Jackson and Lapsley (2003) found evidence to suggest that public sector financial managers did not use a formal strategy to acquire information. Instead, they used traditional sources such as professional publications and journals, conferences, networking, and internal and external seminars and training courses. Swan and Newell (1995) found that professional associations were key agents in this diffusion of knowledge and acted as intermediaries for the diffusion and translation of the knowledge needed for innovation. Professional associations can play significant role in transferring and diffusing the knowledge for accounting innovation through their member network within the public sector organisation.

The change agent can play major role in this diffusion process and mediate between innovators and adopters. Christensen and Parker (2010) conducted research to determine how consulting work was an important means of overcoming the inertia of public sector change resistance, the competition between Treasury accountants and economists, and the emergence of a private sector version of public sector accrual accounting (PSAA) in preference to alternative reforms. Christensen and Parker (2010) examined the New South Wales Government’s decision to adopt full accrual accounting, rather than devoting its resources to Government Finance Statistic (GFS), as an instance of idea transference in public sector accounting. In the NSW PSAA change, consultants used seminars as one means of achieving consensus on a new language: ‘commercial accounting’ for non-commercial entities (Christensen and Parker, 2010). To build an image of idealized public sector accounting using accrual methods, they (consultants) were able to establish supportive network between themselves, the bureaucrats and the politicians. The importance of this case lies in the fact that the private sector consultants were able to create the synergy between self-interest and ideology that
facilitated the transfer of the accrual accounting idea to the public sector. Through various communication channels, the private sector consultants influenced the government and the key players responsible for making the decision to change accounting practices, to overcome their resistance to change.

Diffusion studies traditionally focused on an organisation’s demand for an innovation, with potential adopters seeking a change in their accounting practices. These studies considered information as a passive factor in the diffusion process (Ax and Bjørnenak, 2005). However, the supplier may be promoting new accounting ideas independently to the organisation, with the supply side actively seeking to control the information field of potential adopters (Ax and Bjørnenak, 2005, Bjørnenak, 1997). Perera et al. (2003b) examined the diffusion of transfer pricing as an innovation in a government trading enterprise (GTE). Using the diffusion innovation theory, they sought to analyse and explain the introduction, abandonment and reintroduction of transfer pricing in organisations over a 10-year period. This study attempted to explore and understand how and why management accounting is or is not diffused, as well as the importance of focusing on the secondary stage adoption and organisational values, norms and experience as these affect the secondary adoption. They found that transfer pricing was introduced because of government pressure for organisations to become more commercialised. This finding suggests that accounting changes are influenced by factors that are external to the organisation. This was supported by Jackson and Lapsley (2003) study that found that public organisations are under pressure to improve their efficiency and processes.

Wickramasinghe (2015) insisted that any failure in the implementation of an accounting innovation cannot be fully explained by the governmentality mantra, and that persistent cultural-political economy issues can hinder successful implementation. In that study, he found that post-colonial bureaucratic budget constraints caused policy-makers to re-think the cost-saving budgetary process for a provincial hospital in Sri Lanka, and concluded that bottom-up communication in the initiation and diffusion of innovation is more effective in the success of implementation (Wickramasinghe,
2015). Even though financial managers lead their teams in the implementation of accounting innovation, some consideration must be given to the non-financial managers who must operate with, and use the information from, the new system. Jackson and Lapsley (2003) and Lapsley and Wright (2004) considered the non-financial managers’ involvement in the development of accounting innovation. However, there were mixed views regarding non-financial managers’ involvement in different types of governments. Some felt that there was little involvement in the development of accounting and that, generally, the more recent initiatives had increased the involvement of non-financial managers, especially with the use of KPIs and data collection for performance measurement, and this was regarded as a positive step. This was found to be similar to the government agencies. The non-finance managers in the health care sector were heavily involved at all levels in the generation and use of both internal and external information. However, there was no consistency in this involvement, with the non-financial managers being more involved with monitoring and budgeting for costs, providing input for the financial report, budgetary process, and the costing for new activities. In general, the public sector organisations are receptive to the needs and opinions of their non-financial colleagues. This study attempted to acquire an understanding of non-financial managers’ involvement in the development of accounting techniques and practices in Sri Lanka’s public sector irrespective of previous mixed evidence.

Within the public sector, the issue of diffusion of accounting practices and techniques has assumed a new importance, given the range of institutional reforms and modifications to existing practices. The literature pertaining to the diffusion of an accounting innovation in the public sector maintains that accounting innovation originated mainly in the private sector and the adoption of these techniques by the public sector is mainly attributed to government or external influences. The diffusion of technical knowledge has generally been through traditional sources such as professional membership and publications (Lapsley and Wright, 2004, Jackson and Lapsley, 2003). In the accounting literature, there is mixed evidence regarding the importance of networking as a way of acquiring technical knowledge. IS literature highlighted and tested the importance of networking
(Midgley et al., 1992, Robertson et al., 1996), but Lapsley and Wright (2004) found that only 9% of respondents believed that networking was an important means of acquiring technical knowledge.

Overall, literature pertaining to the private sector contributed to understanding the diffusion of accounting innovation in this sector. However, most studies concerned with the diffusion of accounting innovation tended to focus on one aspect of the diffusion process, that is, the characteristics of the innovation and its influence on the rate of adoption from the adopters’ perspective (demand side of adoption). This thesis contributes to the literature on public sector reforms as it considered the five phases of the diffusion process when examining the diffusion of accounting innovation in Sri Lanka.
4.6 Chapter summary

This chapter reviewed and analysed the literature on public sector reforms, especially public financial management reform strategies. The rise of new public management over the past few decades is one of the most striking international trends in public administration. NPM is different in many ways from traditional public administration. The introduction of NPM ideas in the developing countries may be seen as an example of policy transfer or lesson drawing, where the government of one country tries to learn from the experiences of another country. However, in recent years, governments have focused more on public financial reform under the umbrella of NPM. The notable element of the NPFM movement is the accounting-based financial management techniques that are being drawn on in the pursuit of reform.

In NPFM, accounting plays a major role in the reform process. The introduction of new accounting techniques and practices has become more common in many governments and their agencies around the world under the NPFM. Accrual basis accounting is an attractive financial accounting innovation adopted by many developed and developing countries over the past few years. International organisations, the World Bank in particular, play a major role in promoting internal accounting standards in public sector organisations worldwide. However, the success of implementing such reforms in developing countries is very limited compared to developed countries. This is due to the former’s comparatively limited capacity of technical, administrative, institutional and political resources in developing countries. Prior research has used various theories and concepts to identify the factors that influence accounting change within the public sector in both developing and developed countries.

Most of the theories and concepts related to accounting change tend to focus on persuading individuals to change during the reforming process, but diffusion takes a radical approach, seeing change as being primarily about the reinvention of product or process to meet individual (or group) needs. In the diffusion of an innovation, it is not people who change, but the innovation itself. This
thesis examines the introduction of accrual basis reporting in public sector organisations in Sri Lanka from the diffusion perspective in order to determine and understand the factors that influence the diffusion and adoption process. The next chapter is described the methods used for the collection and analysis of the empirical evidence.
CHAPTER FIVE
RESEARCH METHODOLOGY

“Social constructivists hold assumptions that individuals seek understanding of the world in which they live and work” (Creswell 2009, p.8)

5.1 Chapter overview

This chapter outlines and justifies the choice of research method which was adopted as the most suitable approach to examine the diffusion process of accounting innovation among the public sector organisations in developing countries. This chapter addresses a range of matters. It argues the appropriateness of the qualitative approach for the current study. It discusses the three phases of the data collection process including the illustration of the research design in this study and the data analysis techniques associated with each phase of data collection. Finally, and importantly, the chapter discusses the validation and reliability of the data captured in each phase before ending with a chapter summary.

5.2 Identification of research paradigm

A research paradigm is ‘a philosophical framework that guides how scientific research should be conducted based on peoples’ philosophies and their assumptions about the world and the nature of knowledge (Collis & Hussey 2009). When choosing a particular method of inquiry, it is important that researchers are mindful of the assumptions, concepts, values and practices of the researcher, called the ‘philosophical position’, because it influences the way in which research is conducted (Saunders and Lewis, 2012). According to Collis & Hussey (2009), there are two main research paradigms: positivism and interpretivism. These are also referred to as research philosophies or the epistemological approach in social science research (Saunders et al. 2009). Positivism, which originated in the natural sciences, is ‘underpinned by the belief that reality is independent of us and
the goal is discovery of theories, based on empirical research of observation and experiment’ (Collis and Hussey, 2009). On other hand, interpretivism emerged in response to criticisms of traditional positivism and ‘it is underpinned by the belief that social reality is not objective but highly subjective because it is shaped by perceptions of individuals’ (Collis and Hussey, 2009).

This study assumes that the reality is subjective and differs based on the perceptions of the participants in the study. This assumption would lead to data being collected from more than one participant since each participant would have a different perspective. Another major concern is what constitutes the validity of knowledge. A researcher attempted to establish a close rapport with the participants, to make sure that participants revealed all about the diffusion-adoption process of accounting innovation.

5.3 Research method/method of inquiry

Once the research paradigm is identified, the researcher should consider the research method/method of inquiry (Collis & Hussey 2009). To address the research objectives outlined in Chapter One, a qualitative strategy was adopted for this thesis. The utility of the qualitative approach in the accounting field of research has been established and discussed at a general level by previous studies (see for example (Mir and Rahaman, 2007, Adhikari et al., 2013, Yapa and Guah, 2012a, Perera et al., 2003a, Korteland and Bekkers, 2007, Parker, 2012, Wickramasinghe, 2015).

The choice of a particular method of inquiry (qualitative or quantitative or a mix of both) should not be determined by the researcher’s commitment to a particular strategy (Hopper and Powell, 1985). The research method selected should reflect the philosophical assumptions of the chosen paradigm. In social research, the research method can be categorized into three types: qualitative, quantitative and combined methods (mixed methods).
The method of inquiry associated with positivism supports the deductive approach with a view to providing explanatory theories to understand social reality (Collis and Hussey, 2009) or to test theories (Saunders et al., 2009). Since positivism assumes that social reality is external, the objective can be measured, which means that positivism is associated with quantitative methods of analysis (Collis & Hussey 2009). A quantitative research method is used widely to examine, collect and measure data by using statistical techniques.

In contrast, the method of inquiry associated with interpretivism involves an inductive process with a view to providing an interpretive understanding of social reality within a particular framework (Collis & Hussey 2009) or developing a theory (Saunders et al., 2009). Since it is focused on exploring the complexity of social reality as a constantly shifting emergent property of individual’s creation, interpretivists adopt a range of qualitative methods (Collis & Hussey 2009). Qualitative research emphasizes quality in data collection and data analysis by examining documents, observing behaviour or interviewing participants (Collis and Hussey, 2009). The mixed methods approach is a combination of both the qualitative and quantitative methods. There is no particular superior model or strategy that can be adopted in a study. However, the researcher needs to consider whether the method chosen will help to address the research question(s) and the objective(s) of the study (Saunders et al. 2009).

Since this thesis is embraced the interpretivist philosophy, the qualitative method of analysis was chosen in order to extend theory development, as opposed to theory testing. Qualitative research allows “a researcher to build a complex, holistic picture” (Creswall, 1998). The meanings, concepts, characteristics and description of processes and events are essential to the development of theory in this research. Qualitative research is normally more concerned with procedures, meanings and how people make sense of their lives, rather than results (Creswall, 1998). According to Creswall (1998), the qualitative approach is appropriate when the research question is concerned with ‘how’ as opposed to ‘why’. A qualitative design is useful when attempting to understand or uncover what lies
behind any phenomenon about which little is known (Corbin and Strauss, 2008). Accounting techniques, such as accrual basis accounting, developed for private sector entities are applied in the public sector, but little is known about the way in which these techniques are transmitted and the way they are diffused throughout large and complex public sector organisations (Bjørnenak, 1997, Jackson and Lapsley, 2003).

Qualitative research is appropriate when a topic needs to be explored and theories need developing (Creswall, 1998). In this case, data should be collected from individuals who have taken action in the process (Creswall, 1998). In this thesis, the interviewees are the key players (Chief Financial Officer) who take action in their respective organisation in relation to the implementation and adoption of accounting innovation. Hence, the qualitative approach is the most appropriate method for addressing the research questions and objectives.

5.4 Data collection

The empirical data for this thesis was collected by using (1) semi-structured interviews targeting Chief Financial Officers (CFO) from three different levels of governments: Central, Provincial and Local; and (2) a descriptive survey instrument targeting CFOs from Local Governments. This combination ensures that the data collected is not affected by the data collection design and is a means of mutual confirmation of results, and it provides the researcher with different perspectives of the same element under scrutiny (Berg, 1998). The three phases of data collection used in the research design are shown in Figure 5.1 below.
Figure 5-1: Research designed in this thesis

Phase | Procedures | Outcomes
--- | --- | ---
Interview phase | Face to face, semi-structured interview targeting Chief Financial Officers from central government (5), provincial council (9) & local government (15) | Qualitative structure data based on themes
Data analysis | Transcribed data into word document, text analysis-coding and thematic using Nvivo software | Structure results, able to match with interview themes
Survey phase | Survey instrument sent to Chief Financial Officers in all local governments (335) in Sri Lanka | Answers to the research questions to achieve research objective
Data analysis | Descriptive and statistical analysis- probably percentage, mean & standard deviation | Combined and discussed all three set of data based on common themes
Integration phase | Integration all three source of data | Answers to the research questions to achieve research objective

94
5.4.1. Phase one- Interview source

Interviews constituted a major source of the data collected for this thesis. An interview is defined as a conversation with a purpose. There are three types of interviews: structured, semi-structured and unstructured. The structured interview occurs when each respondent is asked the same standard questions from a questionnaire by an interviewer, either by telephone or face to face (Saunders and Lewis, 2012). Structured standardised interviews are used predominantly in surveys and opinion polls with subsequent quantitative analysis (Burns, 2000). This technique is commonly used when the interviewer has a large group of people to interview and the interviews are all conducted in a standardised way. One disadvantage of this method is that the researcher will have no scope to find out the beliefs, feelings or perceptions of the respondents that do not fit into the pre-ordained response categories.

Unstructured interviews are more informal and are used to explore in depth the participants’ knowledge and understanding of a general topic in which the researcher is interested, but unlike structured interviews, there is no pre-prepared list of interview questions (Saunders and Lewis, 2012). This method is more like a general conversation. The benefit of this method is that the researcher is free to discuss any area of interest during the course of the interview and the questions can be personalised. However, the limitation of this method is that it takes more time to obtain systematic information and it may result in too much irrelevant information (Burns, 2000).

This study used the semi-structured interview method of data collection, which stands between the structured and the unstructured interview. In a semi-structured interview, the researcher will have a list of topics to be covered and questions to be asked, although the order of the questions will vary from interview to interview depending on the responses from the participants (Saunders and Lewis, 2012). Semi-structured interviews were selected for this study mainly due to their flexibility. A semi-structured interview allows a more flexible exploration of the issues and still provides rich, detailed
answers (Berg, 1998). Flexibility is important because the interview needs to be tailored to the background and knowledge of the participants.

The main purpose of these interviews was to obtain a detailed understanding of how accounting innovations are diffused throughout the public sector organisations in Sri Lanka. This required a detailed explanation of the accounting innovation. Therefore, the conversational approach was adopted and the open-ended question invited detailed discussion. At the same time, the interview process allows the opportunity to clarify doubtful or unclear answers, as necessary. The semi-structured interview gives greater opportunity for clarification and detailed understanding (Berg, 1998).

5.4.1.1. Preparation for interviews

Prior to sending out invitations to potential interview participants, institutional approval was sought and obtained from the Ministry of Finance (MOF) and Ministry of Local Government & Provincial Council (MOLGPC) of Sri Lanka (see appendix A) and the RMIT University Human Research Ethical Committee (see appendix B). The interview participants were initially contacted by phone and then sent email invitations along with the Participant Information and Consent Forms (PICF) (see appendix C). All the interview participants were from Sri Lanka and therefore the researcher had to travel to Sri Lanka to conduct face-to-face interviews. All the interviews were conducted in April-June 2015. The interviewer contacted the participants to confirm the date, time and place of the interview a few days earlier to make sure that they were still available.

In Sri Lanka, there are two official languages: Sinhalese and Tamil. In most government offices, the working language (official language) is Sinhalese (except for the Northern and Eastern Province which is Tamil). Since the interviewer is fluent in both Sinhalese and English and the majority of high ranking government officers are fluent in English, the interviews were conducted in English unless the interviewees preferred Sinhalese. The minimum time taken for interviews was 20 minutes and the longest time was 60 minutes (average interview time was 30-45 minutes). Most interviews were
conducted in the participants’ office, ensuring minimal disruption (doors were kept closed and had ‘busy’ or ‘do not disturb’ notices). With the consent of participants, the interviews were audio recorded.

This work was the first non-official interview to be conducted with high ranking government officials from Northern and Eastern Provincial Government in their own offices in Sri Lanka since 1983. From 1983 to 2009, no civilian was allowed to enter the Northern and Eastern Provinces due to prevailing civil war unless with a special consideration. Also, since the Provincial system was introduced in 1987, the first provincial election for the Northern Province of Sri Lanka was held in 2013 to elect Members for Provincial Government.

5.4.2 The population and sample selection

5.4.2.1. Population and unit of analysis

A sample’s representation of a population is determined by the sampling frame, the sample size and the specific design of selection procedures (Burns 2000). The sampling frame in this study is the public sector organisations in Sri Lanka comprising Central Government, Provincial Government and Local Government. This study has excluded the revenue earning bodies and public enterprises due to their different regulatory requirements. The Sri Lankan Accounting and Auditing Standards Act (No.15) 1995 requires these organisations to report in accordance with SLASs. This study focused on ministries, departments and constitutional bodies which are required to report in accordance with the FR of Sri Lanka. The country has nine provincial governments and 335 local governments. According to the 2015 budget estimates for central government ministries and departments, there are 54 ministries and 88 departments. 

---

A unit of analysis is the unit from which the researcher obtains information. In this study, the unit of analysis was Chief Financial Officers (CFO) or their equivalent from the selected organisations. These target respondents were chosen because CFOs should be responsible for the maintenance and management of the accounts and ensure the most appropriate technological support for financial management practice, which highlights the leadership characteristic (WorldBank, 2007a). In Sri Lanka, Public officers - Grade I, generally perform the duties of CFOs. They are responsible for preparing annual financial statements. Therefore, it was assumed that their knowledge and experience of the accounting change process would contribute to the evolution of diffusion theory as identified in this study.

5.4.2.2 Sample selection

A total of 28 participants were interviewed for this study. The participants were selected based on the background information of public sector reforms in Sri Lanka in order to examine the diffusion process. This thesis examined the diffusion process of accrual basis accounting along with SLPSAS throughout public sector organisations using a top-down approach. Diffusion is an exchange and communication of information about an innovation within and between groups. There are various groups involved in this diffusion process: (a) the innovators who developed the accounting innovation; (b) promoters who promote accounting innovation to potential adopters by diffusing knowledge about the innovation; and (c) adopters who potentially implement the accounting innovation. In collecting empirical evidence, this thesis ensured that all the relevant parties involved in this process were represented. The major groups involved in the diffusion of accrual basis accounting along with SLPSAS is illustrated in Figure 5.2 which shows the primary communication links between the groups. The sample selection ensured that participants included innovators to adopters, as well as third parties.
Sri Lankan, Central Government Ministries and Department including MOF, SAD and AG are responsible for developing new accounting techniques and practice for public sector organisations (innovators). Then, these new practices and techniques are disseminated throughout other government organisations including Provincial and Local Governments for adoption and use via different intermediaries. The Sri Lanka Institute of Local Governance and Local Government Department established in each Provincial Council are mainly responsible for promoting and implementing new accounting policies in Local Governments. These intermediaries are called ‘third parties’. In addition to that, professional accounting associations such as the ICASL contribute significantly to the development and dissemination of accounting policy in the public sector. The last and most important group is the potential adopters of accounting innovation which can include Ministries, Departments in Central Government, Provincial Government and Local Government organisations. This thesis focused on the diffusion of accounting innovation developed by Central Government innovators (SAD, AG & MOF) and diffusion throughout Provincial and Local Government as the potential adopters.

Figure 5-2: The development and diffusion of accounting innovation
This study sought contributions from seven participants from the Central Government Ministries and Departments based on their roles in the innovation process. These seven participants comprised one from SLILG, one from AG, three from SAD, one from MOLGPC and one from FC. The participants from SAD were also members of a public sector standards development committee. All of the CFOs in the Provincial Government were selected for interviews as there are only nine Provincial Governments in Sri Lanka. Given the time and cost constraints, it was impossible to conduct interviews with CFOs from all 335 Local Governments in Sri Lanka. Therefore, the interviews were conducted with 12 participants who were randomly selected from Local Government. The organisational profile of participants is presented in Table 5.1.

**Table 5.1: Organisation profile of participants**

<table>
<thead>
<tr>
<th>Name of organisation</th>
<th>Government layer</th>
<th>Role in diffusion</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance and Planning</td>
<td>Central Government</td>
<td>Innovator</td>
<td>1</td>
</tr>
<tr>
<td>State Accounts Department</td>
<td>Central Government</td>
<td>Innovator</td>
<td>3</td>
</tr>
<tr>
<td>Auditor General Office</td>
<td>Central Government</td>
<td>Innovator</td>
<td>1</td>
</tr>
<tr>
<td>Institute of Local Governance</td>
<td>Central Government</td>
<td>Third party role</td>
<td>1</td>
</tr>
<tr>
<td>Finance Commission (FC)</td>
<td>Central Government</td>
<td>Third party role</td>
<td>1</td>
</tr>
<tr>
<td>Western Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Central Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Southern Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Northern Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Eastern Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>North Western Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>North Central Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Uva Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Sabaragamuwa Province Office</td>
<td>Provincial Government</td>
<td>Innovator/adopter</td>
<td>1</td>
</tr>
<tr>
<td>Municipal Council</td>
<td>Local government</td>
<td>Adopter</td>
<td>5</td>
</tr>
<tr>
<td>Urban Council</td>
<td>Local government</td>
<td>Adopter</td>
<td>4</td>
</tr>
<tr>
<td>Pradeshiya Sabha</td>
<td>Local government</td>
<td>Adopter</td>
<td>3</td>
</tr>
</tbody>
</table>

28
5.4.3 Interview guide

5.4.3.1 Construction of interview questions

The interview guide was divided into two main sections. The first section was intended to elicit background information about the interviewee such as name, experience and professional qualifications, providing a context for their responses. The second section contained the open-ended questions constructed to assess the relevant issues and a conversational approach was used to elicit responses. The researcher was careful to design the interview questions to encourage the interviewees to discuss concepts and issues that were important to them, in particular regarding the process of innovation adoption and implementation. The researcher was mindful to avoid complex or double-barrelled questions which require the respondent to address two issues in the same question.

The researcher developed three sets of interview guides for participants representing three levels of governments (central, provincial and local). This design was important to ascertain how these three levels connect with each other in a single diffusion process as they may play different roles over time and space. For example, provincial government has a dual role in the diffusion process. In adopting the central government accounting policy, it plays the ‘adopter’ role; when designing the diffusion and adoption process throughout local government, it plays an ‘innovator’ role. Hence, when interviewing a provincial government participant, the interviewer took care to ask questions to reveal the process behind both roles. The questions for participants from the three levels of government were not essentially different, but the form of questioning was different to make it relevant to the participants. The consistency of questions was very important to ensure that all the participants revealed the mechanisms behind the process under discussion. Table 5.2 shows a sample question designed for participants from the three levels of government (see Appendix D for the full interview guide).
5.4.3.2 Mapping the interview questions with DOI theory

The interview questions were developed in line with the five-stage diffusion process identified by Rogers: knowledge, persuasion, decision, implementation and confirmation. The innovation should pass through each of these phases until it is successfully adopted in a given social system. The individuals involved in this process require a larger amount of information to reduce any uncertainty about the innovation. The interview questions which covered all the five phases of the diffusion process were designed to reveal the communication and integration process undertaken by all parties (as per Figure 5.2). Table 5.3 shows each interview question number and its corresponding diffusion phase. Three sets of interview guides were developed, one for each of the three groups of government participants: group 1- Central Government participants; group 2- Provincial Government participants; and group 3- Local Government participants.
5.4.3.3 Testing interview questions

Once the interview guide was developed, a pilot interview was conducted with two academic staff (one from accounting and one from non-accounting, other than the supervisors) before conducting the main interviews. Non-accounting staffs were selected for testing because the researcher expected to interview several CFOs who did not have a background in accounting. It was therefore important that the questions be understood by a non-expert in accounting. The purpose of the pilot test was to make sure the participants understood the interview questions, that questions were clear and unambiguous, and that the answer was relevant to the information sought by the interviewer. The pilot testing was useful in revealing several ambiguities leading to minor changes being made to the interview questions.

Table 5.3: Matching interview questions with theoretical background

<table>
<thead>
<tr>
<th>Diffusion phases</th>
<th>Elements of each phase</th>
<th>Question number (Group 1)</th>
<th>Question number (Group 2)</th>
<th>Question number (Group 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior condition</td>
<td>Recognition the defects and problem of existing practice, desire to be innovative</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Awareness diffusion and innovation development</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Diffusion of practical knowledge</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>Reasons for diffusion/ importance of innovation</td>
<td>4-5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Persuasion</td>
<td>Relative advantage, Relevance, Complexity</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Persuasion</td>
<td>Compatibility, Modification</td>
<td>7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Persuasion</td>
<td>Trialability, Observability</td>
<td>8</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Decision</td>
<td>Adoption/rejection, Role of leadership, championship, Autonomy</td>
<td>9</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Implementation</td>
<td>Communication behaviour/ sharing knowledge and experience, accuracy of top-down process</td>
<td>8-9-10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation</td>
<td>Barriers /enablers</td>
<td>10-11</td>
<td>11-12</td>
<td>11-12</td>
</tr>
<tr>
<td>Confirmation</td>
<td>Monitoring of accounting innovation</td>
<td>12</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>
5.4.4 Interview data analysis

The interviews were digitally recorded and transcribed into a word document for analysis.

5.4.4.1 Data transcribing and translating process

Twenty-three interviews were conducted in Sinhalese, which is the first language of the participants. Four steps were undertaken to ensure the validity and accuracy of the data collection process. First, the interviews were transcribed into the participants’ native language, Sinhalese. Second, the interview transcripts were sent to the interviewees to validate the recorded interview information. The researcher confirmed with the participant the validation of recorded interview information through e-mail and telephone. Third, the interview transcriptions recorded in Sinhalese, were translated into English, the language used for this thesis. Due to the significant number of interviews, the researcher employed a professional translation service in Sri Lanka because they should be fluent in both Sinhalese and English. Finally, in order to ensure the accuracy of the transcription process, a sample of the interview data was translated from English to Sinhalese by an independent person and then compared with the original transcripts to assess the accuracy of the original transcription. This process confirmed the accuracy of the transcription.

5.4.4.2 Text analysis

Qualitative data analysis was utilised. Initially, the data was reviewed in its entirety, in order to obtain a sense of the overall data, assisted by the reflective notes taken during the interviews as part of a sorting-out process to identify major or recurring themes in the data, and for pre-coding. This data was coded accordingly for the purpose of analysis. In qualitative inquiry, it is most often a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of data (Saldana, 2009). This study identified words and phrases pertaining to different elements of the diffusion process; this is known as descriptive coding.
Descriptive coding summarizes in a word or short phrases - most often as a noun - the basic topic of a passage of qualitative data (Saldana 2009). Description is the foundation for qualitative inquiry, and its primary goal is to assist the reader to see what you saw and to hear what you heard. As this thesis focused on understanding the diffusion process of an accounting innovation, the data collected through interviews consisted of participants’ ideas, thoughts and experiences of accounting innovation. Therefore, the descriptive method allowed the researcher to explore and analyse the data’s content relevant to this topic and descriptive codes were assigned and more detailed sub-codes were used as required. For example, some codes which emerged from the participants’ responses to a question about the relative advantage of the innovation were ‘really useful’, ‘think beneficial’, ‘more appropriate’, ‘good system’, ‘current requirement’, ‘up to date technology’ and ‘positive step’ and all of these codes could be categorised as ‘relative advantage’. The participants’ responses enabled the researcher to conclude whether the former had positive or negative ideas about the relative advantage(s) of an innovation, and then the relative advantage could be further sub-categorised as positive, negative or moderate.

After the codes were grouped, they were arranged into a coding hierarchy. Codes that are similar or about the same things are gathered together under the same branch of the hierarchy, as siblings of the same parent (Gibbs, 2007). Figure 5.3 gives a sample of the code hierarchy used in this thesis. Rearranging codes into a hierarchy involves thinking about what kinds of things are being coded and what questions are being answered. For more coding hierarchies for the different diffusion phases, refer to Appendix E.
5.4.4.3 Anonymity of interview participants

Interview data is kept anonymous to protect the respondents’ confidentiality. Data de-identification is the process of removing personal identity from datasets. When obtaining informed consent for interviews, the participants are informed that their individual identities will not be used when disseminating the results. In the public sector, some data are highly sensitive and public servants are really careful about sharing this information with outside parties. Therefore, anonymity is more important for participants and will enable them to freely discuss with outsiders the issues and problems in the government sector. This study used codes to identify the participants and these codes were used when disseminating data. Table 5.4 shows the code assigned to each participant and his/her background information.
### Table 5.4-Coding for interview participants

<table>
<thead>
<tr>
<th>Number of participant</th>
<th>Participant code</th>
<th>Position</th>
<th>Years in current position</th>
<th>Years in public sector</th>
<th>Qualification in accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Government Level</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>CG1</td>
<td>Chief Accounting Officer</td>
<td>7</td>
<td>30</td>
<td>BCom, CA</td>
</tr>
<tr>
<td>2</td>
<td>CG2</td>
<td>Deputy Auditor General Director (Finance &amp; Reporting)</td>
<td>8</td>
<td>20</td>
<td>MBA, CA</td>
</tr>
<tr>
<td>3</td>
<td>CG3</td>
<td>Director General</td>
<td>2</td>
<td>19</td>
<td>CA, BSc</td>
</tr>
<tr>
<td>4</td>
<td>CG4</td>
<td>Director General</td>
<td>1</td>
<td>30</td>
<td>CA, MBA</td>
</tr>
<tr>
<td>5</td>
<td>CG5</td>
<td>Director &amp; member of PSASC</td>
<td>4</td>
<td>22</td>
<td>CA, BSc</td>
</tr>
<tr>
<td>6</td>
<td>CG6</td>
<td>Director (Provincial Finance)</td>
<td>5</td>
<td>30</td>
<td>BCom</td>
</tr>
<tr>
<td>7</td>
<td>CG7</td>
<td>Deputy Secretary</td>
<td>7</td>
<td>30</td>
<td>FCA, MBA, BSc</td>
</tr>
<tr>
<td><strong>Provincial Government Level</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>PG1</td>
<td>Deputy Secretary (Finance)</td>
<td>7</td>
<td>30</td>
<td>MBA, CA</td>
</tr>
<tr>
<td>2</td>
<td>PG2</td>
<td>Deputy Secretary (Finance)</td>
<td>15</td>
<td>41</td>
<td>CIMA, BSc</td>
</tr>
<tr>
<td>3</td>
<td>PG3</td>
<td>Deputy Secretary (Finance)</td>
<td>9</td>
<td>31</td>
<td>BCom</td>
</tr>
<tr>
<td>4</td>
<td>PG4</td>
<td>Deputy Secretary (Finance)</td>
<td>12</td>
<td>30</td>
<td>Bsc, CA</td>
</tr>
<tr>
<td>5</td>
<td>PG5</td>
<td>Deputy Secretary (Finance)</td>
<td>9</td>
<td>22</td>
<td>CIMA</td>
</tr>
<tr>
<td>6</td>
<td>PG6</td>
<td>Deputy Secretary (Finance)</td>
<td>14</td>
<td>42</td>
<td>MBA, CA</td>
</tr>
<tr>
<td>7</td>
<td>PG7</td>
<td>Deputy Secretary (Finance)</td>
<td>12</td>
<td>34</td>
<td>CA, BSc</td>
</tr>
<tr>
<td>8</td>
<td>PG8</td>
<td>Deputy Secretary (Finance)</td>
<td>9</td>
<td>25</td>
<td>NA</td>
</tr>
<tr>
<td>9</td>
<td>PG9</td>
<td>Deputy Secretary (Finance)</td>
<td>6</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td><strong>Local Government Level</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>MBA, BCom,</td>
</tr>
<tr>
<td>1</td>
<td>LG1</td>
<td>Chief Accounting Officer</td>
<td>12</td>
<td>31</td>
<td>CIMA</td>
</tr>
<tr>
<td>2</td>
<td>LG2</td>
<td>Chief Accounting Officer</td>
<td>10</td>
<td>30</td>
<td>BCom, CA</td>
</tr>
<tr>
<td>3</td>
<td>LG3</td>
<td>Chief Accounting Officer</td>
<td>4</td>
<td>6</td>
<td>B.Com</td>
</tr>
<tr>
<td>4</td>
<td>LG4</td>
<td>Chief Accounting Officer</td>
<td>2</td>
<td>15</td>
<td>B.Com</td>
</tr>
<tr>
<td>5</td>
<td>LG5</td>
<td>Secretary</td>
<td>2</td>
<td>6</td>
<td>B.Com</td>
</tr>
<tr>
<td>6</td>
<td>LG6</td>
<td>Program officer (Finance)</td>
<td>8</td>
<td>8</td>
<td>BSC</td>
</tr>
<tr>
<td>7</td>
<td>LG7</td>
<td>Management Officer</td>
<td>2</td>
<td>7</td>
<td>Diploma</td>
</tr>
<tr>
<td>8</td>
<td>LG8</td>
<td>Management Officer</td>
<td>2</td>
<td>10</td>
<td>Diploma</td>
</tr>
<tr>
<td>9</td>
<td>LG9</td>
<td>Accountant</td>
<td>2</td>
<td>3</td>
<td>CA</td>
</tr>
<tr>
<td>10</td>
<td>LG10</td>
<td>Management Officer</td>
<td>2</td>
<td>8</td>
<td>B.Com (Mgt)</td>
</tr>
<tr>
<td>11</td>
<td>LG11</td>
<td>Management Officer</td>
<td>1</td>
<td>1</td>
<td>Diploma</td>
</tr>
<tr>
<td>12</td>
<td>LG12</td>
<td>Management Officer</td>
<td>2</td>
<td>10</td>
<td>Secondary school</td>
</tr>
</tbody>
</table>

#### 5.4.5 Phase two - survey source

The survey is a popular and common methodology in business and management research consisting of questions and other prompts for gathering information from respondents (Saunders and Lewis, 2012). Although it is often designed for statistical analysis of the responses, this is not always the
case (Collins and Hussey, 2009). This is widely used in both qualitative and quantitative studies. According to its purpose, the survey can be one of two types: descriptive or analytical (Collins and Hussey, 2009).

5.4.5.1 Descriptive survey method

In a descriptive survey, the questionnaire will normally use a nominal and ordinal scale because it is concerned primarily with the particular characteristics of a specific population of subjects. It does not require the examination of dependent and independent variables. This study used descriptive and exploratory questions to understand the diffusion process of accounting innovation enabling successful adoption consistent with prior accounting diffusion studies (Jackson and Lapsley, 2003, Lapsley and Wright, 2004).

The purpose of the survey instrument in this study was to understand the diffusion and adoption of accrual basis accounting within Local Government. Due to the large sample size comprising 335 Local Government CFOs, the survey was the most efficient means of collecting data. A larger number of responses allowed conclusions to be drawn with greater confidence and generalisations made about the population of local level CFOs. The survey is an appropriate method for analysing a large volume of data or number of people (Creswell, 1998). The survey data revealed to what extent the diffusion process enabled the successful adoption of accounting innovation in local governments. The survey instrument was informed by the initial interview data with randomly selected CFOs in local governments. This study used a cross-sectional design.

5.4.5.2 Questionnaire

5.4.5.2.1 Questionnaire development

A paper-based mailed questionnaire was utilised as an electronic questionnaire was not expected to align with the cultural expectations of Sri Lankan CFOs. In the Sri Lankan public sector, especially in local government, a reply can be expected from a paper-based mailed questionnaire rather than from an electronic survey. Most Local Governments have not been provided with or do not have
access to internet facilities and not all respondents may be familiar with using an electronic system. In addition, by using a mailed questionnaire, respondents would not have the pressure to provide an immediate answer and therefore would be able to concentrate on the facts rather than providing a subjective view; moreover, it would provide anonymity to the respondent (Upping 2010).

The questionnaire was developed using both close-ended questions (using a scale) and open-ended questions. The first draft of the questionnaire was constructed based on a thorough review of theory and an analysis of previously published questionnaires. Some questions were taken from previous studies of diffusion in the public sector (Jackson and Lapsley, 2003, Lapsley and Wright, 2004). Once the initial interview with local government participants was completed, the draft questionnaire was further developed based on the input from the interview analysis.

5.4.5.2.2 The structure and content of the questionnaire

The survey comprised six sections including a section requesting background information. The seven-page survey questionnaire contained 20 questions (refer to Appendix F for the full questionnaire). The content of each section is briefly explained below.

Section one - Background information: section one contained five questions relating to the participant’s education, employment and organisation background. This data was used to determine whether participants’ background information had an impact on the success of the diffusion and adoption process.

Section two - Prior condition for new accounting practice: this contained two questions: one to determine the importance of innovation and why new practice was being introduced within the organisation – in particular whether it due to direct government pressure, and the other to allow respondents to identify any problems with current practice.
Section three - Diffusion of technical knowledge about new practice: there were four questions in this section intended to reveal information about the knowledge diffusion process and awareness of the innovation development process.

Section four - Persuasion of new accounting practice – the one question here was designed to reveal the qualities of new accounting practice that determine the likelihood or otherwise of adopting the new practice (characteristics of innovation).

Section five - Decision and implementation of new practice: there were five questions in this section intended to show the factors inhibiting the adoption process and facilitation and coordination process provided by external organisations’ impact on the adoption process.

Section six - Confirmation of new practice: there were two questions in this section – one close-ended and one open-ended. These questions related to the monitoring and assessment role of the participant during the change process. The open-ended question enabled the participant to provide details about the diffusion process and offer suggestions for the improvement of future change processes.

5.4.5.2.3 Testing and comments

The draft survey instrument was distributed to six participants comprising both academic and non-academic staff at RMIT University. The academic staff members were selected to test the survey instrument from the perspective of the accounting discipline; moreover, they had published academic papers on public sector accounting. The non-academic participants were PhD students in the School of Accounting. Each of these participants gave their feedback and written comments with regard to the constructs, grammatical errors and the format of the instrument. These feedbacks were discussed by the researcher and his supervisor and subsequently, minor revisions (mainly to rectify grammatical errors) were made to the questionnaire.
4.4.5.2.4 The main administration of the survey

The main survey was administered to 335 Local Government employees during June and July 2015. The survey questionnaire was mailed to local government personnel. All the postal addresses were obtained from the 2015 Sri Lanka Telecom Directory. The package mailed to potential participants included information and consent form, the survey questionnaire and a reply-paid envelope. The covering letter also stated that the questionnaire had been approved by RMIT University’s Business College Human Ethics Committee. At the end of the questionnaire, the respondents were advised to return the completed questionnaire in the self-addressed, reply-paid envelope. They were also given the option of giving their email address if they wanted to receive a summary of the findings. Otherwise, respondents remained anonymous.

The mail-out of the main survey was followed up with a reminder. Reminders were sent to all the CFOs who had not responded within four weeks from the initial mail-out. The reminder pack included all the documents that had been included in the initial survey pack – the information, consent forms, the survey instrument and a reply-paid envelope.

5.4.5.3 Questionnaire data analysis

The questionnaire responses were analysed using both descriptive and statistical methods in order to obtain information about the diffusion and adoption process of accrual basis accounting within Local Government. The data were analysed using the SPSS-23 statistical software package. The data were arranged and organised in both descriptive and statistical forms.

5.4.5.3.1 Data arrangement for analysis

The first step in preparing the data for analysis was to take 10% of the mailed surveys and check for data input accuracy. If an input error was found, then 100% of the mailed data were double-checked. No input errors were found.
The second step in preparing the data for analysis consisted of looking for outliers in the data and checking for accuracy. An outlier was any observation that was distinct from the other data, and which could indicate data errors.

In an attempt to determine the instrument’s reliability, Cronbach’s alpha, an internal consistency analysis method, was applied. Internal consistency is a measure of the correlation between items in a survey. Determining internal consistency is one way of determining the validity of the test instrument. An alpha coefficient of >0.7 is considered acceptable.

### 4.4.5.3.2 Descriptive and statistical analysis

Descriptive analysis was conducted to organize and summarize the data, in order to easily determine the information they contained and to describe what the data showed. In a descriptive manner, data were used to determine frequencies, counts, and proportions which described the respondents’ demographic features (age, experience) and described the outcome variables. The mean and standard deviations were the most-used descriptive analysis techniques.

There are several statistical techniques including Ordinal Logistic Regression, Chi Square analysis, and Kruskal-Wallis Test have been used to identify the associations and relationships between diffusion factors and rate of adoption.

### 5.4.6 Phase three - integration of findings from all three source

For the purposes of this thesis, data were collected from interviews and surveys and analysed to address the research questions outlined in Chapter One. The interview data provided the answer for sub-questions one and two. The survey data answered sub-question two. By answering the sub-questions one and two, this study was able to answer the primary research question and to achieve the research objectives. This process is illustrated in Figure 5.4.
5.5 Research validity and reliability

Research validity is the extent to which the data collection method or methods accurately measures what they were intended to measure and the research findings are really about what they profess to be about (Saunders and Lewis, 2012). Validity can be broken down into internal validity and external validity. Validity is a crucial factor in research strategy because research can be affected by different factors which can render the research findings invalid (Saunders and Lewis, 2012). The variables that could potentially affect the validity of the research findings are discussed in this section.

Internal validity deals with causality. One of the variables that may affect the internal validity is the selection of participants. Because a random sampling method was used to select local government personnel for interviews, the results could be affected. Local governments across the country vary greatly in terms of size, purpose, culture and resources. Moreover, individual experiences may vary greatly within the same organisation. The data collection process could not determine whether there are different responses among non-participants. However, the survey instrument was distributed to all the local governments to generalise the interview findings geographically and to eliminate any potential bias. Another problem is history (time). In most government organisations, the implementation of accounting diffusion commenced in 2003. This raises the potential of error in
the participant’s recollection of events and incidences, or changes to their positions within this period. In order to avoid this problem, the participants included persons who had been involved in their respective organisations since 2003. As the participants were public servants, they might have feared revealing the truth, or being biased, or sanitizing the truth. This type of response is one that is biased in favour of the organisation. In order to minimise this effect, it was made clear at the beginning of the interview that the responses would be kept confidential, participants could withdraw from the interview at any time and they had the choice of not answering certain questions.

External validity refers to the extent to which the conclusions are generalizable to other research settings. This study was based on an analysis of Sri Lanka’s public sector regarding the implementation and diffusion of NPFM innovation throughout public sector organisations. It is a question of whether findings, theory or conclusions can be generalised to other country settings. As Sri Lanka is a developing country which is highly politicalized and aid-dependent, the findings may be generalizable to south Asian countries, which have similar socioeconomic and political characteristics as Sri Lanka. However, the researcher’s concern is not to produce a theory that is generalizable to all similar countries, but to try to explain the way that innovation is being diffused and implemented in Sri Lanka.

Research reliability refers to the data collection method and analysis procedure employed in this study to ensure that it produces consistent findings; that is, the same result will be produced in other contexts or the methodology is used by other researchers (Saunders and Lewis, 2012). One of the factors that may affect the reliability is subject error, where the measurement instrument if applied in different places at different times, may produce different results. The researcher allowed each participant to choose the most convenient time and place for the interview so that they were more confident about voicing their opinions and revealing facts with a minimum of perceived risk. For example, some participants preferred to have the interview in their own home. As discussed
previously, as all the participants were public servants, they might have thought that the revelation of truths would be dangerous. The researcher made participants aware that they could withdraw from the interview at any time without giving a reason and that there was no need to answer every question. Another factor that may affect reliability is observer error where the researcher asks the same question but in a different way, thus biasing the results. The researcher made certain that he obtained the participants’ explanation through open-ended questions, while the close-ended question was reserved as prompts, to clarify the discussion, and to ensure that participants were consistent in relation to one issues. Another factor is observer bias, in which different researchers may interpret the same data in different ways, thus biasing the findings and conclusion(s). To avoid this risk, the researcher tried to explain the data from different perspectives and the entire possible outcome within the research frame.

5.6 Chapter summary

This chapter described the research design that was undertaken in this study to achieve its research objectives outlined in introduction chapter. This study adopted the interpretivism philosophy and its associated method of inquiry (qualitative approach). The intention of the design of the research was to further refine and develop Rogers’ diffusion of an innovation theory, as opposed to trying to test the theory. Accordingly, this study took an inductive approach, with primary data being collected from face-to-face, semi-structured interviews and a survey instrument targeting CFOs or their equivalent who were working in public sector organisations in Sri Lanka.

With an understanding of the background of Sri Lankan public sector reforms, the interview questions were prepared as an interview guide to conduct semi-structured interviews with CFOs who were involved in the diffusion process throughout organisations in all three levels of government (Central Government, Provincial Councils and Local Governments). The transcribed interview data were analysed by means of coding the main point using NVivo-11 software. In the
third process, descriptive questionnaires were sent to CFOs in Local Government in order to confirm the use of accounting practice and diffusion process. The questionnaire was initially drafted using prior diffusion studies and further customised with preliminary findings from interviews with Local Government participants. The questionnaire responses were analysed both descriptively and statistically to reveal the diffusion and adoption experience from the Local Government CFOs’ perspectives. The empirical evidence from the analysis of interview and questionnaire data is presented in the following two chapters according to Rogers’ (1983) diffusion phases used to explain the diffusion trajectory. Chapter Six presents the findings from the analysis of the interview data; Chapter Seven presents the findings from the questionnaire survey.
6.1 Chapter overview

This chapter presents the qualitative analysis of the interview data. The interview was conducted with public sector CFOs or senior finance officers who were responsible for accounting decision-making for their organisation. The participants were selected for their role in the diffusion of accrual basis accounting practice, covering all three tiers of government in Sri Lanka. The public sector organisations included Central Government Ministry (MOF) Department (SAD, AGD); Provincial Government; and Local Governments (Municipal Council, Urban Council and Pradeshiya Sabha). The accrual basis accounting standards were a Central Government innovation and diffused throughout other government organisations for adoption. This thesis focuses mainly on the diffusion of accrual basis accounting throughout Provincial Government and Local Government adopters from 2005 (when the standards committee was established) to 2015.

For the purpose of analysis, the diffusion process was categorised as: 1) the diffusion of accounting innovation from Central Government (innovator) to Provincial Government (adopters), and 2) the diffusion of accounting innovation from Provincial Government (intermediary organisation) to Local Government (adopters). This allows a comparison between the diffusion factors that influence the diffusion and adoption process. In order to meet this objective, the qualitative findings presented in this chapter are set out in two sections. The first section presents the qualitative findings related to the diffusion from Central to Provincial Government. The second section presents the qualitative findings related to the diffusion from Provincial to Local Government. In both sections, the findings are presented in line with the five-phase diffusion trajectory identified by Rogers (1995), beginning with the prior conditions for innovation and ending with the confirmation of innovation.
6.2 Diffusion process from Central Government to Provincial Government

This section presents the qualitative analysis of the interview data in order to understand the diffusion process from Central Government to Provincial Government. Through qualitative analysis, various factors were identified that affect the diffusion and adoption process of accrual basis accounting practice throughout Provincial Governments. Among those issues, ‘awareness’, ‘lack of recognition’, ‘lack of cooperation with professional association’ and ‘lack of control and steering power in implementation process’ can be identified as major issues that influenced the diffusion and adoption process throughout Provincial Governments.

6.2.1 Prior condition for the accrual basis accounting

This section identified the prior condition augmenting a degree of receptivity to the accrual basis SLPSAS in the Sri Lankan government. Firstly, it showed the existing problems of conventional cash-based accounting, inherited from Britain practices, by government officials and international organisations. The various pressure groups (such as professional accounting bodies, and international donor agencies) published reports on current accounting practices (cash basis) identifying the improvements that were needed. The participants highlighted the involvement of international organisations, mainly the Asian Development Bank (ADB), the International Monetary Fund (IMF) and the World Bank (WB), that assessed the government accounting and auditing practices and recommended a modified accrual basis of accounting. A government official (CG5) remarked:

*There are studies done by the World Bank, IMF, and ADB. They do assessments, financial assessment to every country and recommend new practice. But we haven’t implemented, not because they have said but we have recognised there are improvements needed in this area, then we have like, you know, have submitted policy papers to authorities, and if they accepted, then we have implemented.*
The prevailing cash basis of accounting was criticised in these reports, both for its failure to comply with the regulations and the way that certain transactions were dealt with and reported. For example, under the current system (cash basis), the capital improvement in district hospitals, undertaken by the Provincial Fund, may not be identified as capital improvements in provincial council’s books of accounts but may be under the Ministry of Health. Therefore, the financial information prepared under the current method does not reflect the actual picture of Provincial Council’s financial position.

The World Bank’s Country Financial Accountability Assessment of Sri Lanka, a Comparison of Public Sector Accounting and Auditing in Sri Lanka with International Standards, and the Diagnostic Study of Accounting and Auditing Practices in Sri Lanka was conducted in early 2000s. A long discussion of new accounting practices had been conducted among professional groups within the country since the early 1990s. Accounting and auditing professionals criticized the incompatibility of PPB and cash-based accounting from the 1980s. In 1980, the then Auditor General (henceforth AG) of the island expressed scepticism over the use of cash-based accounting together with PPBi (see Wijayasuriya, 1997a). Wijayasuriya further stated that accrual-based accounting would make PPB meaningful. A similar view was propagated by Sivagnanasuntharam (1997). His main argument was that the government’s financial control system had become incapable of contributing to economic development (Wijayasuriya, 1997) (Wijayasuriya was the AG from October, 1971 to May, 1983). He called for the redesign of the financial and accounting standards to mirror a fair view of resource utilisation in the government sector. In justifying the introduction of new accounting practices, one of the central government officials (CG3) highlighted the weakness of existing practices and pointed out the benefits of the proposed system. He recalled:

*Because the old system [cash basis] is not giving us enough information, then we are always ready to go with the current and accept new methods...you find everything, which we need to find in a company through this method [accrual method]. However, the Cash Basis system, which you find in the Public sector*
uses, the treasury in preparing the main accounts. So you find in the system not everything is recorded systematically.

The senior officials in the MOF and external parties (such as the World Bank, the ADB and the ICASL) had become key stakeholders who established the infrastructural platform for the accrual accounting process. In terms of the percentage of GDP, the Sri Lankan government’s foreign debt stood at 36.5% and its dependence on foreign financing sources to cover the budget deficit was 5.1% of the GDP in 2009 (see Central Bank of Sri Lanka, 2010). This dependency on international resources meant that Sri Lanka was pressured by international organizations, namely the World Bank, the International Monetary Fund, and the Asian Development Bank to make structural changes to the provision of services.

The IMF residential advisor to the Ministry of Finance has criticised the use of a cash-based accounting system with its focus on compliance and stewardship (see Thomas, 1998). He believed that the central government’s accounting system should instead have been intent on generating accurate cost information. Nevertheless, he also stated that accrual accounting as used in the business sector was not appropriate for accomplishing governments’ expectations as governments should not wish to make a profit. Accordingly, he proposed the adoption of modified accrual accounting; Zero Based Budgeting (ZBB) and Performance Planning Budgeting (PPB) were also discussed. His discussion was probably the first endeavour to bring the notion of modified accrual accounting up for discussion (Kuruppu, 2010). As described by an ADB consultant in Sri Lanka, substantial amounts of liabilities and assets were not included in the balance sheet prepared as per cash-based accounting (see Sivagnanasuntharam, 1998; ADB, 2002). Financial statements prepared in accordance with accrual accounting would prevent such deficiencies. A UN technical advisor to Sri Lanka also emphasised the importance of presenting financial statements in a comprehensible manner to ordinary people and media (Benett, 1998). In
2003, the necessity of using generally accepted accounting methods for governmental operations was discussed at a conference.

It was also argued that the accounting system should pinpoint any activities hindering the achievement of objectives of ministries and departments. The cash-based accounting system in Sri Lanka appeared to be unable to do this task (see Kuruppu, 2010). Using the MOF’s administrative authority, all ministries, provincial councils, and departments and statutory boards were ordered to ensure the rational allocation of public resources in accordance with ZBB from 2003. In 2003, the SAD prepared the consolidated financial statements of central government on the IPSAS cash basis as a partial shift to modified accrual accounting (see SAD, 2003). This can be seen as an endeavour to gain legitimacy from international financial institutions (see Kuruppu, 2010). The WB (2007) admired the country’s financial statements for the year 2002 since these were in accordance with the IPSAS cash basis accounting.

This was the first step in moving towards accrual-based reporting practices. The SAD has led a government-wide effort to progressively adopt IPSAS for the reporting of government accounts (revenue and expenditure). This movement, however, did not attract support from the majority of public sector officials, especially those in the sub-national governments. They highlighted that international standards were difficult to apply within the local public sectors’ regulatory and environmental framework and this was introduced under pressure from international donors.

In the meantime, the Sri Lankan government considered introducing local public sector accounting standards, to promote the accrual-based reporting. As a result, the Public Sector Accounting Standards Committee (PSASC) of ICASL was established in 2008 with the participation of AG and MOFP to formulate Sri Lankan Public Sector Accounting Standards (SLPSAS). In 2009, The Public Sector Accounting Standards Committee (PSASC) of the Institute of Chartered Accountants presented its first exposure draft of Sri Lankan Public Sector Accounting Standards (SLPSASs) on the accrual basis of accounting.
During the interviews with sub-national government participants, it was highlighted that they did not have enough opportunity to take part in the standards development process, which did not allow the exposure of their innovativeness. Commenting on the development of SLPSAS, one participant from the provincial government (PG2) sector stated:

*We recommend to government the necessity for local accounting standards to practice accrual based accounting system because we understand International accounting standards are somewhat difficult to apply here. We need further education to learn how we can develop standards to match our requirements. We were not informed that Institute of Chartered Accountants involved with this process and no one requested our participation. We don’t know how it comes.*

The Provincial Government participants acknowledged that accrual basis accounting was not new for them as it was being used in private and public business enterprises over many years but it was new in terms of applying it in public sector organisations where cash basis accounting is used for reporting. The Provincial Government CFOs insisted that Central Government officials attended many international conferences, workshops, and seminars in countries like Malaysia, Switzerland, Singapore and Thailand which had been provided by international governments and organisations, particularly the ADB. This had increasingly become a key factor when creating a favourable environment for accrual-based reporting practice among Central Government officials. These officers had the opportunity for serving PSASC in developing SLPSAS. A senior officer at The Ministry of Finance (CG4) who was a committee member remarked:

*We should be more open towards embracing global practice in line with other countries in our region, which are meant to improve our financial reporting practices. We developed local accounting standards in line with IPSAS to apply into government entities that use accrual based reporting. ICASL came forward to cater the professional need for public sector.*

Prior studies identified that collaboration between government officials and professional associations can influence the public sector to adopt the international trends in accounting
(Adhikari et al., 2015). As recommended by the PSASC, the key Central Government officials had begun working with ICASL in public financial reforming and especially in developing SLPSAS.

6.2.2 Knowledge of the accrual basis accounting

Knowledge occurs when an individual is exposed to an innovation’s existence and gains some understanding of how it functions. The existence of a change agent with adequate skills and expertise is considered important in any organisation, to create a desire for innovation (Rogers, 1995a). In introducing accrual basis accounting practice to the Sri Lankan public sector, the ICASL plays a major as a change agent. The ICASL established the Association of Public Finance Accountants of Sri Lanka (APFASL) in 2012 as a public sector wing of CA. The objective was to enhance the accounting knowledge of government accountants and auditors. In addition, various government institutes organised training sessions and seminars for government accountants to inform them of the new accounting practice. The Ministry of Finance established the ‘Miloda Academy of Financial Studies’ as the training arm of the ministry in 2013. Miloda provides training and skill development to Central Government officers in specialised fields such as accounting and finance. A Central Government official (CG4) who was involved in organising a capacity-building program remarked:

We organise training and awareness seminar at our training centre ‘MILODA’ for all accountants to inform the proposed standards. We had another program in a place called APFASL. I am also a member of that. It is from those places where we gain up-to-date knowledge about accounting. We organise capacity building program at district level with the skilled staff from ‘MILODA’ and ‘ICASL’. I am the training head in our department and it’s my responsibility to train our lower staff.

The SAD is entrusted with the responsibilities of providing training and necessary instruction in relation to proposed accounting innovations to potential government adopters. In general, these instructions were communicated to potential adopters through a series of published circulars. Most circulars provide detailed explanations of standards, the application process, and guidelines. In
general, circulars are addressed to the heads of departments who are responsible for communicating the contents of the circular to relevant officer(s). The Provincial Government CFOs insisted that this was not an effective means of communication when introducing a new accounting technique or practice by the Central Government. A Provincial Government official (PG3) remarked that this could lead to weak inter-governmental communication, and could possibly delay the adoption of the new accounting practice which was introduced through circulars. This participant stated:

*The chief accountants and other accountants are under the secretary of Provincial Council. The SAD sent all circulars, addressed to Secretary but not only SAD, all government circulars addressed him. Secretary might get number of circulars per day, per week. In some situation, there might be delay of getting these circulars to our account department which could result in unable to send response back to government within time permitted or delay in processing particular issue or even delay in sending people to specific training and seminars.*

In addition to circulars, an officer from SAD mentioned that the SAD website kept updating all relevant material and information for both government officials and the public. However, most of the communication was a top-down process which did not produce effective discussion and dialogue between policy diffusers and policy implementers. The Provincial Government CFOs remarked that the government was unable to create a platform to maintain discussion and dialogue about accrual basis accounting practice. Provincial Government officers acknowledged that they did not have enough opportunity to participate in the development of standards. One officer (PG4) remarked:

*We know what the problem here in provincial and mostly common to all Provincial Government. Few years back, we had once in a three month secretary level meeting with the participation from all the Finance secretaries in Provincial Government. It is not happening now and it was good platform to discuss our common issues in accounting. In developing accrual basis standards, we had one day seminar to make awareness and get our feedback about standards. We*
believe it was not enough and within one day, we cannot expect to address common issues to improve the standards process.

The ICASL held a one-day workshop in an effort to create awareness among prospective users and to gather feedback before formally adopting these standards in June 2009. In terms of diffusion of knowledge about accrual basis accounting practice, the SAD organised various types of capacity-building programs. In 2013, the SAD invited certain accountants in public sector organisations to the MILODA institute for a seminar to introduce new accounting standards and create awareness about accrual basis accounting practice. In 2013, a three-day workshop was held at the Institute of Public Finance Accountancy in Colombo, with the participation of 175 government officers. In addition, the Sri Lanka Institute of Development Administration (SLIDA) organised several training and seminar programs about accrual basis accounting practice and also offers a diploma in public finance to those working in the public finance sector. In 2013 and 2014, a number of one-day seminars were conducted island wide by district secretary offices, intended to offer education on the proposed standards. The ICASL were involved with these capacity-building programs such as seminars, and personnel from SLILG and APFASL held district and provincial workshops.

The Provincial Government participants argued that there is no problem with generally understanding accrual basis accounting; about the problem lies in the technical issues or knowledge required for the application of proposed standards. They argued that most issues could be sorted out in an initial process. But lack of awareness and lack of recognition of their participation in discussion, could result in delaying the adoption of accrual basis accounting practice. They insisted that professional knowledge was required in order to understand some of the proposed standards. The external consultants with professional knowledge could be a better option. A Provincial Government official (PG6) remarked:

*We know the importance of accrual basis, no problem with that. But we need extra bit of information about how to do it. Just get standards and instruction about coding and other but it cannot do like that. We being practising cash basis*
for many years and complete shift is not easy. We need expert team to do and we don’t have. Need to hire from external. We need money, expert to do practical workshop to our lower staff. For an example, in 2006 moving to new procurement system, we hired a consultant from the SLIDA and conduct programs.

The Provincial Government participants claimed that they had the confidence to move into accrual basis accounting practice in the near future but it required extra commitment. However, government officials should make a commitment to change by recognising the need for, and providing, adequate resources. This recognition motivates them to share their knowledge and experience with the rest of the team and adequate resources would enable the implementation of accrual basis accounting practice. A provincial government officer (PG4) remarked:

One time we requested funding to conduct some workshops with hiring expert people from outside but we did not get. Now they do not look into that matter as well. There is problem in allocating international funding among public sector in public sector reforming process. The Central Government officials do not think that the development of the financial management in provincial councils helps in return to the development of entire public sector financial management. That mentality is not there.

The Provincial Government CFOs supported the view that ICASL has professional and expert knowledge about accrual basis accounting but professional accountants might have limited knowledge of the public sector working environment. There is no representation of Provincial and Local Government in the PSASC. The Provincial Government CFOs emphasised that they were in a better position to reflect on the specific settings in which government accounts operated than other professional accountants in the private sector. They argued that at least PSASC should maintain better discussion and dialogue with Provincial Government CFOs when developing SLPSAS for the public sector. A Provincial Government official (PG7) stated:

---

7 Sri Lanka Institute of Development Administration (SLIDA), which is a training organisation for the development of knowledge and improvement of managerial skill in public administration.
The most ICASL members serve for PSASC as part time basis and full time work in private sector. There are some members from AG and MOF but in here [Provincial Government] we have different accounting practice and we have many departments operate under Provincial Council. Therefore, preparing our final accounts is not easy as AG or MOF. What we said, when developing particular standards, they should have better understanding about our accounting working environment but look like they should not.

The evidence indicated that Provincial Government CFOs, with their much-needed extensive and intimate knowledge of public sector accounting should be allowed to steer public sector accounting reforms so as to ensure the success of innovation.

6.2.3 Persuasion for the adoption of accrual basis accounting

Prior studies on public sector accounting have demonstrated that the need to adopt new accounting practice is determined by the ability of promoters to convey the superiority of new practices over existing practices (Adhikari et al., 2013, Adhikari et al., 2015, Ezzamel et al., 2014). Although the effort of the international donor agencies and ICASL are a powerful force in terms of encouraging accrual basis reporting in Sri Lanka’s public sector, the ICASL seemingly played a major role in persuading the government officers to accept the accrual basis SLPSAS in particular. But Provincial Government CFOs were still not aware of and informed about accrual basis accounting in terms of its cost and benefit to their organisations. A Provincial Government participant (PG4) stated:

We know accrual basis accounting is popular in private sector but we are different here. We are not profit oriented and largely depending on government grants and funding. We should have more justification why we are moving into accrual basis accounting. Is it because funding requirement or is it because improve our organisational value? How it improve?

The provincial governments are largely dependent on government grants and funds which are allocated from the budget through the recommendation of the FC. In making this recommendation, the FC focuses on the objective of achieving balanced regional development in the country.
However, the FC did not play a significant role in recommending accrual basis accounting to Provincial Government due to the MOF bypassing them in this process. A Central Government officer (CG6) remarked:

*Normally, policy diffusion into Provincial Government should direct through us [Financial Commission]. Because we have responsibility to allocate funding in reforming process required extra resources and coordinate reform process to make sure it achieve best. We did in history. But in this process, we were not aware and MOF did not inform us. We don’t say every policy has to go through us. But we can do influence over Provincial Government in order change their behaviour in positive way.*

The transparency and accountability issues in financial reports (produced by cash-basis accounting) have also been identified by international donor agencies. In 1997, a member of the IMF delegation visited Sri Lanka and encouraged the government to adopt modified accrual accounting, which he argued would provide accurate information about the cost of government activities. The same principle can be applied to Provincial Government in an attempt to understand why the proposed practice is relevant to them. A Provincial Government officer (PG2) emphasised the relevance of the proposed practice, and remarked:

*We receive money from treasury or from donors. We have to spend it and record it. There is nothing after that. Now when we take the assets in our government offices and the lands, there is a problem that who has the authority. The reason behind all these is due to non-availability of a system among us. If we go for the accrual basis accounting, all assets are going to be measured and identified in our reports and people can see records. It is only one example.*

Innovation involves new knowledge. Accrual basis accounting requires the potential adopter to acquire new knowledge about how identify, measure and record transactions using accrual basis accounting instead of the current practice of cash-basis accounting. Some Provincial Government CFOs questioned the compatibility of accrual basis accounting with the current working conditions
Compatibility issues occur when an innovation is not aligned with the working environment of the adopting organisation and is not able to meet the requirements of the potential adopter. Prior studies identified that cultural differences between the proposed innovation and current work practices is one of major barriers to creating a favourable attitude among potential adopters (Ax and Bjørnenak, 2005).

In addition, several CFOs highlighted that current participatory budgeting practice is not consistent with accrual basis reporting. The budget of a Provincial Government is called the ‘Annual Financial Statement’. It has to be prepared by the Deputy Secretary (Finance) under the supervision of the Chief Secretary with the participation of other officials. When preparing it, revenue sources need to be identified and measured such as devolved revenue (E.g. turnover tax), grants for new establishment (recurrent) costs from the Central Government, and contributions made to projects such as the integrated rural development project, and criteria-based grants for capital expenditure. The CFOs were concerned that there might be reconciliation issues between the budgetary process and financial statement prepared under accrual basis accounting. For example, the timing of the revenue and expenditure under accrual basis accounting may be different from participatory budgetary basis accounting.

A Provincial Government official (PG) remarked:

But to go for a real change, to go for a real change and amend the rules, we have to make this first. Now the problem that we have is, if we have to go for the
accrual basis accountancy, then we need accrual basis budgeting. For that budget circular we collect all these experiences, and develop that circular.

The issue is not just whether or not there is incompatibility between the current budgetary approach and accrual basis accounting reporting, but whether the CFOs are clearly informed. This lack of awareness makes them more uncertain about accrual basis accounting and prevents them from forming a favourable attitude toward accrual basis accounting.

The majority of provincial participants highlighted the fact that there are some standards, such as SLPSAS 5 (effects of changes in foreign exchange rate), SLPSAS 10 (revenue from exchange transaction) and minority interest, which were not really relevant to them or they were not fully aware of how to use these standards within the Provincial Government accounting environment. Trying to learn about those transactions was a complex process for the provincial financial staff, even with their knowledge capacity. It was difficult to communicate an understanding of transactions to implementation staffs at lower levels in the organisation. Prior studies identified that if managers considered that proposed standard were easy to understand and describe to others (communicability), there is a higher probability that organisations would form a favourable attitude toward innovation and quick adoption (Hussein, 1981). Provincial Government CFOs were concerned that the government’s proposed standards could not be communicated to lower staff using technical terms, but needed a simpler, more practical explanation. One Provincial Government official (PG2) remarked:

"The Central Government may have paid millions and billions for those consultants. We are a rural area. We face lot of problems. We have a lack of knowledgeable persons and people like that. Then we faced how to communicate all this. It is useless of talking to those people about debit and credit. I will show you here the circulars that treasury sent us to go for accrual accounting. They told us to enter a double entry, but that is not possible and no one will understand this papers. For an example no one can understand how to take real value of certain assets such as agricultural item and heritage item. To the treasury it is easy. However, after
that there was something. All finance commissions in the provincial councils got together and had a meeting. Then they said that someone should guide this first. Either treasure or someone should guide this first.

In 2013, SAD issued a circular to all Central Government ministries and departments, requesting that final accounts be prepared using accrual basis accounting as a pilot project. This gave Central Government organisations the opportunity to prepare financial reporting according to proposed standards, when using traditional cash basis accounting. This gave them more confidence during the transition period and also familiarized them with technical issues when preparing financial reporting using accrual basis accounting. A Central Government official (CG4) recalled:

We have sent a circular in 2013 to all ministries and departments to do accrual accounting in addition to what they are doing now and we had positive and negative responses. Some people need more time than other. Some ministries and departments have various section and they need more time to revalue their assets. We cannot apply to just one section but we need report for whole organisation.

Rogers (1995) highlighted that innovation can be experimented on a trial basis, giving less uncertainty to the individuals who may be considering it. The majority of Provincial Government CFOs stated that they had not attempted accrual basis accounting on a trial basis. They believed that it was better to trial the approach within one department of the Provincial Council or at least within one Provincial Government. Then every other Provincial Government could follow the practice, which would speed up the adoption process. A Provincial Government official (PG8) stated:

We have to understand the fact that, we cannot do any changes at once. That is why we talk with the audit department and inform that we would go systematically. It is hard to be perfect. However, we value the assets and go into the system gradually. However, the things that we do in accrual basis now will be continued as it is. I am not sure how we can try part of accrual and part of cash. It is not like introducing computer system to our organisations.
The Provincial Government CFOs supported the view that it was really worthwhile for the government to try accrual basis accounting within one Provincial Government with the assistance of experts, supply adequate resources, and then promote this practice to the remaining Provincial Governments. They could assess the results and follow the practice of the trial government, rather than asking individual Provincial Governments to develop their own means of making the transition to accrual basis accounting. Rogers (1995) remarked that the easier it is for individuals to see the results of peers (observability), the more likely they are to adopt it. Visible results help to dispel uncertainty and also stimulate the peer discussion of a new idea, as friends and neighbours of adopters often request information about the idea.

6.2.4 Decision to adopt the accrual basis accounting

Decision-making occurs when an individual engages in activities that lead to a choice to adopt or reject the innovation. Usually, the decision to adopt or reject would be made based on their readiness to use the innovation. Moreover, the adoption of new accounting practices in the public sector can be both a complex and controversial endeavour, given the involvement of various stakeholders (Adhikari et al., 2015). The majority of Provincial Government participants acknowledged that there was pressure from external bodies such as the MOF and donor agencies (E.g. World Bank & ADB) to adopt new accounting reforms within the public sector. However, Provincial Governments devolved their financial system from the Central Government, and the Governor has executive power in financial policy decision-making process. This gives an ‘optional’ decision-making process to Provincial Government rather than having authoritative government pressure exerted for the adoption of change. Rogers (1995) stated that if the individual has more flexibility in decision making, the particular diffusion process might lead to a lower rate of adoption within the social system. However, external pressure and mandates from higher levels of authority can influence the rate of adoption of accrual basis accounting.
The evidence indicated that the decision of continuation of accept to late approval of accrual basis accounting is possible within Provincial Governments. This is mainly due to CFOs’ lack of motivation and commitment to adopt accrual basis accounting within Provincial Government. In Sri Lanka, Provincial Governments have no formal management evaluation system which could encourage staff to achieve better results. Government regulations or mandates can influence policy diffusion but the success of policy implementation should be rewarded to ensure policy continuation and achieve desired outcomes. The CFOs pointed out that there is no system of reward in the public sector. Managers can decide to adopt accrual basis accounting under government pressure but this does not guarantee the success of implementation of accrual basis accounting without further improvement. Improvement can be made only if users see benefits for them or their organisation. The Provincial Government CFOs expected to see the benefit of accrual basis accounting in terms of organisational benefit to continue the process. A Provincial Government official (PG5) stated:

*We don’t want to follow central government circulars every time and we have to decide how it can be done with discussing our chief secretary. But more important as public sector organisations, we have to depend on central government funding specially in capital improvement and investment. We have to prove that we used funding effectively and achievement. Therefore, we cannot go against them.*

Change agents often seek to speed up the innovation process for individuals by sponsoring the demonstration of new ideas in a social system (Rogers, 1995). In accrual basis accounting, FC and MOF can demonstrate the benefit of accrual basis accounting in terms of opportunity to enhance the organisational value which allows them to have more funding. However, this demonstration is quite effective in influencing adoption by individuals, especially if the demonstrator is an opinion leader (Rogers, 1995). As stated in the previous section, Central Government should focus on one Provincial Government in order to move into accrual basis accounting with the support of technical people. Then the Provincial Government becomes an opinion leader in order to influence other
Provincial Governments to move to accrual basis accounting. The lack of leadership and lack of commitment in this process was clearly indicated during the interviews.

6.2.5 Implementation of the accrual basis accounting

The implementation stage of public sector accounting reform is often claimed to be the most difficult stage of the reform process. Under the pressure from external bodies, and to maintain the uniformity of accounting practice throughout the public sector, Provincial Government CFOs decided to move to accrual basis accounting from current cash basis reporting. A certain degree of uncertainty about the expected consequences of the innovation still exists for individuals at this stage, even though the decision to adopt has been made previously (Roger, 1995). In the Provincial Government context, CFOs had many issues such as “How to use accrual basis accounting?” “How does it work in particular transactions?” and “What problems will we encounter in implementing and how to solve it?” so much active information-seeking usually takes place at implementation. Problems are more serious when the adopter is an organisation rather than an individual (Roger, 1995). The CFOs were sensible and knowledgeable but in organisations there are various technical, cultural and human problems that may be encountered during implementation. The change agent mainly provides technical assistance to the client. The ICASL are willing to share their expert knowledge with public sector organisations when they are ready to move into accrual basis accounting. But the issue is how CFOs will manage this access to and use of resources in the implementation of the reform process. Commenting on availability and commitment, one Provincial Government participant (PG1) stated:

*We have quite bit work load at Provincial Government. You know more than 500 departments; institutions operate under the Provincial Government. I have to directly involve with any financial and accounting matters at these organisations. Government reform policy means extra work load in addition our daily, weekly, and monthly routine. We need to preference these reforms based on benefit to us and organisations. It is not easy to drive these reforms at Provincial Government.*
Government should give us some incentives to encourage for such reforms. I mean not only financial but recognise our commitment and leadership, more professional development, etc....

The CFO, as head of finance, is responsible for decision making in Provincial Governments. They have better access to external resources and facilitation providers such as training institutions, expert knowledge and even more funding through the Finance Commission in order to drive implementation of accrual basis accounting. However, the interview evidence indicated that most Provincial Governments had not adequately prepared for the transition to accrual basis accounting. They had not provided adequate training to lower level staffs, implemented an action plan or delegated responsibility for driving the implementation process. Commenting on this lack of preparedness, one of the Provincial Government participants (PG5) stated:

*We know accrual basis accounting is better than cash basis but as though, we cannot implement it. It is a big process. We need to train our staff and need to have idea how to carry roll over process, and we might need computer package. We are not ready yet. I have busy schedule over last few months and I need to priority this reform first. Then, need to have more support from Treasury and other expert people. Government should provide more facilities and experts to us to carry out this.*

The interview evidence indicated that the leadership and commitment of the CFO is really important for the organisation and management of the implementation process of accrual basis accounting. The government should provide more incentives to adopt this reform process and drive the implementation at Provincial Government level. In addition, the CFOs stated that several technical issues inhibited the implementation of accrual basis accounting, which delayed this process.

The asset valuation process gave rise to several major technical issues at the individual implementation stage because local governments had various kinds of unique assets such as
irrigation systems, historical items, playgrounds and roads. The participants stated that the valuation process became harder and was delayed due to the unavailability of information about these assets. Secondly, there was a lack of qualified assessors in the public sector. The Valuation Department has qualified assessors and most of them are busy providing valuations for Central Government ministries and departments. In commenting on these problems, one Provincial Government participant (PG2) stated:

> I think that now we have taken certain steps and we were educated though treasury in Colombo. We had some lectures and conducted certain workshops. We prepare ourselves systematically to reach that point. Now we have faced a small problem. We cannot go to the valuation department to get the work done, due to the high cost and time consuming. Therefore, we discussed with our departments to value our lands for at least 1000 Rupee and start the work. After this when we do the improvements, we can revalue them.

The public sector organisations in Sri Lanka are currently using CIGAS (Computerised Integrated Government Accounting System) to keep accounting and payroll records. The majority of Provincial Government CFOs remarked that the current version of CIGAR did not support accrual basis accounting and it needed to be upgraded or a new computer system was required. However, in 2015, government released a Windows based new CIGAS programme for public sector organisations. Moreover, it was further improved to enable public sector organisation to record asset accounts from March 2015 onward. In discussing these changes, a Central Government officer (CG2) stated:

> We conducted one day workshop for accountants in provincial and district level and 14 workshops have been conducted in 2015. We were able to conduct a workshop in Tamil medium for the accountants serving in Northern and Eastern Province. We have provided a CD consisting with new CIGAS program and CIGAS manual to each accountant and discuss how to undertake close of accounts for the year 2014, beginning of accounts in year 2015 and also addressed to their problems with regard to accounting and reporting.
Prior studies pointed out that the actors who are against the reforms become more active and strive to alter, modify and reinvent the very essence of proposed reforms (Ezzamel et al., 2014). There is no evidence that CFOs are against accrual basis accounting but there are implementation issues. The asset valuation issues, the need for a computerised system to support accrual basis accounting, inadequate training of lower level staff, and lack of coordination between innovators (SAD and PSASC) and Provincial Government CFOs, are major issues hampering the implementation process within Provincial Governments.

The CFOs highlighted the importance of simple guidelines and procedures to follow in implementing any reform process. They remarked that most of the SAD circulars in relation to accrual basis accounting were somewhat complex and too much for lower level staff who needed extra training to understand what was required. Therefore, Provincial Governments needed to organise specific training courses and information sessions for their implementation staff with the support of experts. These required extra funding, good timing and other resources as well. In commenting on the importance of having a simple procedure to follow and specific training for staff, a Provincial Government official (PG2) remarked:

*We are a rural area and we face lot of problems. We have a lack of knowledgeable persons and people like that and then we faced how to communicate all this. It is useless of talking to those people about debit and credit. I will show you here the circular the treasury told us to go for accrual accounting. They told us to enter a double entry, but that is not possible. For that to work, first thing is this must be understandable even to the lower office staff. Inserting technical terms will not take us there. We need to explain the people in understandable words about this. Then what we did to achieve this objective is, was searching the problems.*

This highlights the importance of having a knowledge acquisition infrastructure available to individuals so that they can acquire new knowledge about accrual basis accounting.
6.2.6 Confirmation of the accrual basis accounting

The slow adoption of new accounting procedures has often been equated with an attempt to abandon or reinvent the very essence of such accounting reforms (Rogers 2003). The role of the ICASL has now been confined to provide an independent assessment and oversight of the implementation of accrual basis standards. This was to ensure that the roll-over process of the accrual basis accounting occurred smoothly and that the implementation level was such that people had sufficient technical knowledge to use it. The Institute established the Association of Public Finance Accountant of Sri Lanka (APFASL) to enhance the professional skills and expertise of public sector accounting and finance officers.

The AG department official stated that qualified auditors in the Provincial Government Treasury department are able to provide a continuous review of the preparation of financial statements using accrual basis accounting. Commenting on the role of auditors appointed to the Provincial Government, a Central Government officer (CG2) stated:

> An audit team is working in every Provincial Government under their Treasury department. These auditors can provide information about accounting adjustment on accrual basis and they can review accounts before sending financial statement for actual auditing. They are providing ongoing basis audit and review to both Provincial Government and Local Government.

However, Provincial Governments had yet to convert to accrual basis accounting practice and were still following cash basis accounting. The majority of Provincial Government CFOs highlighted the importance of peer meetings and discussions on a regular basis. This would provide more opportunity to discuss common issues of accrual basis accounting such as asset valuation, revenue recognition and other transactions. They had one meeting every three months which included the Deputy Secretaries (Finance) from all Provincial Governments, but unfortunately, it was not
occurring at the time of the interviews. There seemed to be no particular reason for this apart from a lack of organization.

The evidence shows that an effective review and monitoring process, especially one that is ongoing or regular, is important for the success of an innovation. This process ensures that the potential user of the innovation obtains the necessary information on a regular basis to overcome practical issues and reinforce the benefits of the innovation to ensure the continuity of the new practice.

6.3 Diffusion process from Provincial Government to Local Government

This section presents the interview data analysis relating to the diffusion of new accounting practices throughout Local Government. Various major themes were identified as having an impact on the process. Among those, the ‘confidence’, ‘product championship’ and ‘interpersonal network’ were the major factors to have influenced adoption processes. Those who built confidence via product championship, had greater access to interpersonal network links and achieved better results and quick success in the adoption process, compared to their counterparts.

6.3.1 Prior condition for the accrual basis accounting

The Local Government has used cash basis reporting practice, called the ‘Wickramanayake Accounting System (WAS)’ since the 1980s. From time to time, various user groups such as auditors, Parliament Accounts Committee and professional accountants, identified the limitation of the cash basis system. The Local Government participants believed that cash basis accounting does not recognise the true value of an organisation. In commenting on the limitations of cash basis accounting, a Local Government officer (LG1) remarked:

Wickramanayake system is bit different to provincial system. We have been practiced this since long time and no problems. No one asked to change it. In recent time, provincial government and ICASL came up with this idea to adopt accrual basis. We can see it is much better in term of reporting. For an example the existing system is not showing fixed asset but now we do.
None of the Local Government interviewees mentioned the economic disadvantages of cash basis accounting in terms of funding. Funds were allocated to Local Governments through Provincial Councils both for recurrent and capital expenditures. Local Governments were, however, created under separate legislation having a status similar to private companies owning assets and bearing liabilities and keeping accounts. In recent times, Local Governments are receiving more funded projects from donor agencies (e.g. ADB and IMF) through the Ministry of Local Government and Provincial Council (MOLGPC). In order to meet donors’ requirements, Local Governments are also under pressure to move to modified accrual basis accounting. The MOLGPC put pressure on Local Governments through the Local Government department which is responsible for implementing government policies at Local Government level. Commenting on the external pressure to adopt accrual basis accounting, a Local Government participant (LG4) stated:

\[
\text{We don’t get much pressure from SAD or MOF to move into new accounting practice but Commissioner of LG and auditors recommend new practice as best practice. We understand somewhat importance of new idea but more important how it can implement with minimum capacity.}
\]

The evidence indicates that Local Government personnel were not attracted to accrual basis accounting because it provides greater benefit than current reporting practice, but by recommendations from someone who worked closely with and was considered as a leader in the social system.

6.3.2 Knowledge of the accrual basis SLPSAS

Adopters need to obtain necessary information and knowledge about new techniques or practices before their adoption. The change agent plays an active role in this sub process. In the context of Local Government in Sri Lanka, the Sri Lankan Institute of Local Governance (SLILG) and the ICASL emerged as a key change agent, contributing to the dissemination of knowledge about accrual basis
accounting. Even though a Local Government department is responsible for implementing government policy at Local Government level, this department is under-resourced in terms of technical capacity. In January 2012, the establishment of The Association of Public Finance Accountants of Sri Lanka (APFASL) as a public sector wing of ICASL, aimed to enhance the professional skills and expertise of public sector accountants. The APFASL and SLILG organised a series of capacity-building programs such as seminars, training and workshop about accrual basis accounting, targeting Local Government accountants. Regarding these programs, a Local Government officer (LG4) commented:

*I had opportunity to participate in two seminars about standards at a provincial training centre in 2014. It was organised by Provincial Government and conducted by members from Chartered Institute and Local Governance. But we need more practical education to learn how to apply these to our Local Government.*

In addition to these capacity-building programs, the Local Government accountants used informal networking such as collaboration with peers, discussion with senior officers in Provincial Treasury or Audit Department and even talked to retired public sector senior officers to obtain information about new accounting ideas. During the interviews with Provincial Government officers, the interviewer observed that Local Government accountants tended more often to discuss subject matters with CFOs. In commenting on this regular visit of Local Government accountants, one Provincial Government CFO (PG3) stated:

*This is the most comfortable method for them to discuss accounting issues and learn new practice. They come here and meet senior officers in accounting and auditing, learn about new practice, new technique. Local Government accountants have limited resource to gain knowledge. It is a problem. But they are comfortable talking to us rather talking to MOF or SAD.*

This suggests that Local Government accountants have limited opportunity to acquire accounting knowledge, and mostly relied on what was comfortable for them. Rogers (1995) believed that
individuals enjoy the comfort of interacting with others when they share common meaning, a mutual sub-cultural language, and are alike in personal and social characteristics. For Local Government, the closer higher authority is the Local Government department but they do not have adequate accounting knowledge. The next closest place is the Provincial Treasury and Audit Department that have qualified senior officers in accounting. This collaboration provides Local Government accountants with information and creates a favourable environment for accrual basis accounting.

In terms of obtaining technical knowledge about accounting innovations, Local Government accountants rely on training sessions, seminars and workshops organised by government and private sector training institutions. The SLILG, SLIDA, MILODA and ICASL are the major institutes that organise accounting training and education for public sector accountants. In addition to these, Provincial Government has a unit known as the ‘Management Development Training Unit’ which is responsible for organising training sessions and workshops for government officials in both Provincial and Local Government. Commenting on this training unit, a Provincial Government official (PG3) stated:

_**In introducing new accounting practice and technique, we organised training and development to lower level staffs with the support of Management Development Training Unit. We have two training institute under our provincial controlled and another six central government training institutes. We called all the relevant staffs and train them. If we don’t have professional expert, we hire them from central government or private sector to conduct training and workshop.**_

The SLILG is an institute operating under the MOLGPC, which is responsible for conducting capacity-building and supports the aims of devolutionary processes through research, training, consultancies and the dissemination of information leading to innovative and effective local governance⁸. In 2014, the SLILG conducted more than 100 capacity building programs country wide, giving practical

---

⁸ Institute of Local Governance Sri Lanka home page: http://www.slilg.gov.lk/web/
knowledge about accrual basis accounting to Local Government accountants. The APFASL also conducted a series of workshops on accrual basis accounting, covering Local Governments that were ready to move to accrual basis accounting. The ILGSL and APFASL have played a key role in providing technical knowledge to Local Government about accrual basis accounting as a change agent. Commenting on their involvement, a Local Government officer (LG9) remarked:

Institute of Local Governance and Charted Institute organised training programs about SLPSAS. In addition I update myself through professional membership and also there are accounting lectures, I participate for those. The provincial council also do training programs at their training centre. In addition, the World Bank project also does programs to update knowledge about accrual basis and standards.

The majority of Local Government interviewees believed that these two institutions had the technical capacity to cater for the professional needs of those moving to accrual basis accounting. Most of them preferred hands-on, workshop-type training to formal seminars. The majority of these training sessions are actual workshop sessions held at a training centre, and some are on-site training. The Local Government accountants maintained that these workshops overcame individual fear of changes and built confidence and ability so that individuals could carry out accrual basis accounting once the Local Government had adopted it. However, Local Government individuals are not in a position to reject the government accounting policies.

The evidence supports the view that potential adopters need to be given the opportunity and resources to acquire knowledge about new accounting ideas; moreover, the learning environment must be such that it reduces anxiety and the level of uncertainty about the adoption of a new accounting idea.
6.3.3 Persuasion for the adoption of the accrual basis accounting

An individual forming a favourable attitude towards the innovation is an important factor in order for the continuation of innovation for possible confirmation. There are various characteristics of innovation which can influence the rate of adoption. The majority of Local Government participants supported the view that the new accounting idea is considered superior in terms of accuracy of financial information provided, ability to learn and practise a smaller version (smaller version means move into one section, department or one unit) and access to results obtained by lead users. The majority of Local Government participants stated that financial statements prepared using accrual basis accounting provided more accurate information about Local Government. Local Governments own and control a number of assets but under the existing practice, assets were not measured and recorded in financial statements, which therefore undervalued their financial position. Local Government accountants believe that accrual basis accounting provides more accurate financial position than the cash basis reporting practice. Commenting the accuracy of financial information provided under accrual basis accounting, A Local Government official (LG8) stated:

*In previous method, we did not measure and recorded our assets. We maintain asset register and all information available assets. But under new method, we can record these in financial statement, people can see our value compare to other Local Government.*

The majority of Local Government participants maintained that they took gradual steps in the moving process. One reporting practice was done at a time. Most Local Government accounting begins with a cash flow statement which deals with SLPSAS- 2. Interviewees maintained that it was easier for them to learn one thing at a time and concentrate their resources on that one thing. Once they are confident in preparing cash flow statements and are reviewed by auditors, they move onto another reporting practice. Most of them remarked that cash flow statements are the easiest to prepare under accrual basis accounting. Commenting about cash flow statements, a Local Government officer (LG7) stated:
There are problems like we need to value all our asset and we don’t have some records. But in generally, we can easily adjust to our existing practice. We continue same way but prepare some different report like cash flow statement which we did not do previously.

The third thing is the influence of peers and access to peer reporting practice. There are some Local Government accountants who can see the benefits of accrual basis and understand how to apply it. Most of these lead users became product champions and driving forces promoting accrual basis accounting within Local Government. There was no formal peer networking, although some of the Local Government accountants had personal connections with these lead users. This personal connection was used to obtain specific knowledge about the application of accrual basis accounting and the benefits of the new idea which drives the adoption process. Rogers (1995) remarked that change agents often seek to speed up the innovation process for individuals by highlighting the benefits of a new idea in a social system. This approach can be quite effective in influencing adoption by individuals, especially if the demonstrator is a lead user. This gives more confidence regarding the consequences of innovation.

The evidence suggests that Local Government accountants need more confidence about accounting innovation before embracing a new idea. The information needs to provide the assurance that the implementation process is simple and that it will require a minimum amount of training and disruption to current work practices. Local government accountants can build their confidence by following peer lead users and product champions, and by implementing a new practice step-by-step and observing the results.

6.3.4 Decision to adopt the accrual basis accounting

The Local Government accountants did not often criticise government policy decisions. If fact, Local Government officers are not decision makers but only implementers. This section does not directly examine whether or not Local Governments have made the adoption decision. A degree of
autonomy has an influence on the adoption process, but to what extent does this institutional authority, which made the decision to adopt, have the ability to drive adoption and implementation of innovation for possible confirmation?

The Commissioner of Local Government (C-LG) and the Secretary to The Ministry of Local Government have extended power to decide what government reforms are to be implemented at Local Government level. The Secretary to the Ministry of Local Government and the Auditor General Department officially advised all the Secretaries of Local Governments about the decision to adopt accrual basis accounting through a circular which was sent on January 2014. However, by that time, most Local Governments had received information about accrual basis accounting through various seminars, workshops, and informal communications with officials in the Provincial Treasury and Audit Department. The C-LG as a head of Local Government Department is responsible for implementing government policies at Local Government level. In commenting on these institutional involvements in the decision making and implementation process of government accounting policy, a Local Government official (LG3) stated:

*In generally, central government take decision to change policy and we struggle here to implement such policy at our level without much support. In introducing new accounting standards, we had meeting with the deputy secretary of provincial treasury and auditors and they took decision to adopt it in our Local Government. They gave all formats for new reporting and instruction how to do it and auditors advises us step by step. In addition, we had training workshop, conducted by ICASL.*

The evidence indicates that the implementation of accounting policy by Local Governments has mainly come about as the result of a decision made by a higher authority and imposed on Local Government. However, Local Governments had some opportunities to discuss the decision and request that changes be made to the preface and introduction of the accrual basis accounting
document. This collective decision-making process is more effective in the diffusion process to drive innovation to the completion or confirmation stage.

6.3.5 Implementation of the accrual basis accounting

In implementing the proposed public sector accounting standards, the individuals and organisations responsible for the implementation of accrual basis accounting at Local Government level become active and strived to alter, modify and rearrange some of the accounting standards and the application process. The Commissioner of LG and SLILG was highly concerned that delivering and requesting a full package of standards (10 SLPSAS) for Local Government could be more complex and confusing. Given the limited technical capacity of potential implementers, learning about every aspect and transaction is not possible. Therefore, only selected standards and application processes were diffused so that they could be adopted and implemented. A Provincial Government official (PG2) remarked:

_The government sent us circulars to implement public sector standards with instruction. These circulars are too complicated. No one will understand at bottom level. For an example minority interest adjustment, what is the minority interest with Local Government or public sector? There is hundreds of coding and categorisation for fixed asset but no one will understand it unless you provide clear definition of categorisation. We have to do major revision to the preface and the introduction of public sector accounting standards into Local Government._

Apart from some amendments to the preface and introduction of the public sector accounting standards document, there were minor revisions to other areas such as asset valuation, the reporting period, money spent on capital improvement, and the required format. In accrual basis accounting, the majority of Local Government accounting begins with a cash flow statement. Most of the interviewees had a sound understanding of the SLPSAS-2 cash flow statement compared to the other SLPSAS. In previous cash basis accounting, the cash flow statement was not prepared and this was a new financial reporting item for Local Government. However, the majority of participants
supported the view that a cash flow statement provides useful information about Local Government cash movements.

Learning about and preparing other accrual basis accounting reports such as income and expenditure statements and balance sheets is taking a bit longer than the cash flow statement. This is because the transition to accrual basis accounting required a significant shift in the work culture and Local Governments needed to meet prior conditions before actually using it. For example, before a balance sheet is prepared, all assets need to be identified and measured. The asset identification is not a real challenge for Local Governments compared to Provincial Government due to their smaller size. Local Governments have fewer assets and most of these are recorded in an asset register. However, measurement is a little challenging and requires professional knowledge. Local Government management can request that a qualified assessor value certain assets or give an estimated value if they are unable to give precise figures for, say, a historical building. According to SLPSAS 7- Property, Plant and Equipment, there is a valuation exemption for some biological (SLPSAS-7, note 5 (a)) and heritage assets (SLPSAS-7, note 8 & 9). Rogers (1995) stated that if an innovation can be managed more flexibly in practice, it is more likely that it will be implemented more quickly than an innovation which has less flexibility.

As another example of preparing income and expenditure statements using accrual basis accounting, Local Government needs to identify all revenue and expenditure on an accrual basis. However, the collection and transfer of property rates present serious complications. Rates are levied by the Land Registration Officer and transferred to the Provincial Government for further transfer to the Local Government. One of the problems in the case of rates is the capacity of the Local Governments to maintain their valuation database (the document that determines the value of property and the rate to be paid). Regular updating of valuation rolls (usually every five years) is a costly exercise, which most Local Governments cannot afford. In recognising these property rates as revenue, Local Government needs more information from Provincial Treasury in order to estimate rates. The Local
Governments have to rely on their valuation database which may not provide accurate information about property rates. In addition, Local Government can request Provincial authority to pass updated information but interviewees claimed that this could delay timely reporting. The same applies to court-imposed fines which are levied by the courts themselves.

The interview finding supports the view that most Local Governments keep their financial records manually. The use of information technology is quite limited, and where it does exist, access is often restricted to a designated ‘Computer Operator’. The government computer-based accounting system is called ‘CIGAS’ (Computerized Integrated Government Accounts System) which is used to record accounts and payroll information in Sri Lanka’s public sector organisations. The majority of Local Government participants maintained that the current ‘CIGAS’ program did not support the accrual basis accounting and needed to be updated to a Windows-based computer system to support accrual basis accounting. For example, the updating and recording of asset values could not be done using the current version. Commenting on this, a Local Government officer (LG4) remarked:

_We make monthly accounts and give it to the Finance committee. The only thing we still do not have a computerized system for accrual basis accounting. Hope it can make job easier for us._

In 2014, SAD introduced an updated ‘CIGAR’ version to meet the requirements of accrual basis accounting. In continuing these updates, at the end of 2015, SAD introduced a Windows-based computerised system which is able to record fixed assets. Training for the new computerised accounting system commenced in 2015 and it would take time to actually implement this computerized system in order to support accrual basis accounting.

The lack of qualified personnel in Local Government is a very common issue in most developing countries as is the case in Sri Lanka. Most Local Government employees are promoted or transferred to Provincial Government ministries or departments once they acquire some qualification and experience in the public sector. As a result, there is a greater number of untrained or less qualified
staff in the Local Government workforce; hence, the implementation of public sector reforms becomes challenging. The promoters or change agents have to provide specific training and education to meet the skill needs of these government employees. In implementing accrual basis accounting, SLILG and ICASL had to cater for the professional needs of Local Government employees by providing specific training and workshops to impart the necessary knowledge in a way that could be easily understood. The hands-on workshop where individuals are actually involved in preparing cash flows and other financial statements using accrual basis accounting became very popular in Local Governments. In addition, members from SLILG and audit provided on-site training for those who were ready to move to accrual basis accounting and required knowledge on specific matters.

Commenting on the requisite knowledge, a Local Government officer (LG9) stated:

> In almost all places you find this lack of knowledgeable people … Most of the accounting staffs work here have done Art degree or something else but not accounts. Therefore, it is a bit difficult to understand accounting terms. We should have qualified accountant here or at least part qualified person. In most cases, we have to contact someone we know such as other local government accountant, provincial accountant or auditor to get information about subject matter.

In the implementation process, most Local Governments receive expert support from members of SLILG, ICASL and the Audit department. The Local Government participants recognised the role played by these organisations in knowledge diffusion and support provided at the implementation stage. The participants considered them as product champions who had expert knowledge of practice. The participants believed that working with these experts and obtaining knowledge through them gave them (interviewees) confidence and reduced the uncertainty associated with the adoption of a new idea. The evidence confirms that gaining technical knowledge through organisations or individuals who are considered as product champions can have more influence on the implementation process and the degree of uncertainty associated with adopting accounting innovation.
6.3.6 Confirmation of the accrual basis SLPSAS

The interview findings indicate that auditors provide a review and assessment of the preparation of financial statements using accrual basis accounting. The Provincial Treasury and Audit Department generally appoint a coordinator to overview the policy implementation process at Local Government level. The Department for Local Government is responsible for policy implementation in Local Government. But this department has limited resources in terms of technical support for accounting reforms. Therefore, a member from Provincial Treasury and Auditor is appointed to assess the progress and report to Local Government Department. Commenting on this assessment and review process, one Provincial Government official (PG2) stated:

*When we implement something, we appoint a coordinator. We have review meetings and progress review meeting with sectional heads..... This is how we do it. We do monthly monitoring as the treasury. In every sector, we have an accounting department; about 80 or 90 of them are there. Everything monitored in detail by our treasury. That is in every month. Apart from that once in every three months we get the support of financial sector accountants or if there no accountants, any others person who related to finance sector or an AD in the sector to rectify the technical errors and we conduct a workshops like that.*

The audit review is conducted on an ongoing basis which is more effective in accrual basis accounting because it is a continuous process throughout the year. Even though accounts are prepared as at 31st December each year, the organisations need to record income, expenditure, assets throughout the year.

In addition, SLILG and ICASL provide an assessment and review of accrual basis accounting in public sector organisations. This assessment and review is not ongoing but occurs at a particular time. Commenting on assessment and review provided by SLILG and ICASL, a Local Government officer (LG7) stated:
Provincial treasury and auditors request to change our reporting system and they gave us information. We got experts, coming from SLILG and ICASL to show how to value and record asset and our taxes and rate and what items picked up in cash flows. It was really helpful because government sector is new for me. I used to work in private sector hospital as an accountant. This is different. We prepared report under new method last year and auditor audits it and gave us good feedback. We can improve this year much better but it takes time.

The evidence provided that external consultants and ongoing reviews are more important to drive innovation confirmation. However, it was too early for individuals to comment on the usefulness of accrual basis accounting as most of them were still moving to the new accounting system. However, several Local Government officials acknowledged the benefits of accrual basis accounting. Most of these were lead users turned product champions and recommended the system to other Local Governments as well.

6.4 Chapter summary

This chapter presented the analysis of the interview data in order to understand and explain the diffusion and adoption process of accrual basis SLPSAS in public sector organisations in Sri Lanka. In summarising the interview data, the following key findings emerged from this analysis.

1. The main reason for introducing accrual basis accounting into the Sri Lankan public sector is stakeholder pressure which drove government to formulate the SLPSAS in order to move to accrual basis accounting. The major stakeholder groups are public sector accountants, professional accounting bodies (e.g. ICASL) and international donor agencies (e.g. World Bank and ADB).

2. International agencies such as the World Bank, the ADB, and the UN conducted assessments of public sector accounting and auditing practices, to identify weaknesses and highlight the
importance of accrual basis accounting. ICASL, through the establishment of PSASC, is responsible for formulating SLPSAS as the government innovator with the support of AG and SAD. In addition, ICASL plays a major role in diffusing and promoting accrual basis accounting knowledge throughout public sector organisations in Sri Lanka.

3. The PSASC is responsible for maintaining the relationship and exchanging the views about issues with public sector officials by providing opportunities for comments and suggestions. However, the existence of such a relationship and collaboration between innovator and Provincial and Local Government adopters is questionable. The weak collaboration has resulted in a lack of awareness about SLPSAS and lack of motivation to engage in information-seeking activities.

4. In order to obtain information about accrual basis accounting, most of the Provincial Government CFOs were members of professional associations such as CA, CIMA or AAT and used this membership to acquire updated accounting knowledge. However, lower level Provincial Government staff and the majority of Local Government officials do not have this external networking that will make them aware of the existence of an accounting innovation. The Provincial CFOs or government innovators are mainly responsible for providing adequate training and knowledge about accrual basis accounting to these lower level employees. Local Government accountants prefer to acquire technical knowledge through practical training and hands-on workshops. The SLILG and APFASL have organised a series of workshop, seminars and training sessions for Local Government accountants.

5. In forming favourable attitudes towards the quick adoption of accrual basis accounting standards, Provincial Government CFOs who are responsible for decision making for the organisation, always considered the cost and benefits to their organisation. Meanwhile, Local Government is not a decision-making unit in public sector accounting reforms. Decisions are made by MOLGPC and the Local Government Department is responsible for implementing these decisions. Therefore, Local Government accountants are more concerned with the simplicity of
the reform process where new techniques can be adopted with a minimum needs for skills development including minimal training, learning, time and cost. They are confident to try a new technique only if they can take a gradual approach and have more opportunity to observe and learn from the practice of lead users (within Local Governments) practice and from discussions with peers.

6. The implementation process of accrual basis accounting is significantly delayed in Provincial Governments due to lack of commitment and leadership, lack of coordination with government innovators (PSASC and SAD) and lack of incentives to encourage commitment to reforms. The CFOs need to see the adoption of accrual basis accounting as an important reform and need to organise their resources to improve the skill level of their employees by providing adequate training to lower staff, delegating responsibility to different people to drive the diffusion and implement an action plan to move to accrual basis accounting.

7. Meanwhile, the Commissioner of Local Government (the head of Department for Local Government) provided leadership in implementing accrual basis accounting at Local Government level and collaborated with various government and private institutions and individuals to gain support for the implementation process. Generally, the SLILG and APFASL of ICASL provided technical knowledge and support to the Local Government officials during implementing process. In addition, several experts in Local Government implemented accrual basis accounting and became lead users. These lead users turned into product champions and became driving forces behind the implementation of accrual basis accounting in other Local Governments. The provincial government auditors provided assessment and review of the preparation of statements using accrual basis accounting for Local Government.

8. The interview data from Local Government was limited to 12 participants (out of 335) who were selected on the basis of location of Local Government (covering the entire district in Sri Lanka) and type of Local Government (Municipal Council, Urban Council and Pradeshiya Sabha). The
views of 12 participants only are limited and unable to be generalised across the sample population of Local Government officers. Therefore, a descriptive questionnaire was developed using both theoretical framework and preliminary interview findings, to obtain a cross-sectional response from members of Local Governments throughout Sri Lanka. This type of descriptive questionnaire was used in prior accounting studies (Jackson and Lapsley, 2003, Clarke and Lapsley, 2004). The findings to the questionnaire data not only provides additional strength to the interview findings but also provides evidence to generalise responses geographically within Local Governments in Sri Lanka. The total 115 responses were received from a mail-out survey and responses analysed, validated the diffusion process described by interview participants. The next chapter presents the analysis of survey responses.
CHAPTER 7

ANALYSIS OF SURVEY FINDINGS

7.1 Chapter overview

In this chapter, a presentation of survey findings using SPSS-23 software is analysed. The result is presented in line with the diffusion phase, in order to confirm the practice of accrual base reporting within the Local Government. This chapter is structured as follows: first, an analysis of the response rate to the survey is provided followed by a discussion of issues relating to the non-response bias. Next, details are provided of the characteristics of the survey respondents. Then the primary analysis of the data is presented by using several statistical analysis methods: include descriptive analyses, Logistic Regression analysis, Chi Square analysis and Kruskal-Wallis Test.

7.2 Response rate and non-response bias

7.2.1 Response based on type of Local Government

Postal questionnaires were sent to all 335 Local Governments in Sri Lanka. The Chief Finance Officers (CFOs) were chosen as the target respondents because they were more likely to be able to give opinions on accounting reforms in their organisations. Of the 335 questionnaires, 115 completed responses (n=115) were received and used for the purpose of analysis. As a percentage, 34% responded to the survey displaying a response rate similar to other studies on the diffusion process in public sector accounting. The majority of respondents were from Pradeshiya Sabha, accounting for 86% of the total responses. Table 7.1 gives details of respondent rates.
### Table 7.1: Response based on type of Local Government

<table>
<thead>
<tr>
<th>Type of Local Government (LG)</th>
<th>Total LG</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Council</td>
<td>23</td>
<td>8</td>
<td>7.0</td>
</tr>
<tr>
<td>Urban Council</td>
<td>41</td>
<td>8</td>
<td>4.3</td>
</tr>
<tr>
<td>Pradeshiya Sabha</td>
<td>271</td>
<td>99</td>
<td>86.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>335</strong></td>
<td><strong>115</strong></td>
<td><strong>34.3</strong></td>
</tr>
</tbody>
</table>

#### 7.2.2 Response based on level of adoption

The respondents were asked whether they use cash basis or accrual basis accounting for final accounts for reporting purposes. Based on responses, five different categories of respondents were identified as shown in Table 7.2.

### Table 7.2: Responses based on adoption of new accounting practice

<table>
<thead>
<tr>
<th>Type of Local Government</th>
<th>Number</th>
<th>Adopted (1)</th>
<th>Partially adopted (2)</th>
<th>In 1 to 2 year time (3)</th>
<th>2 years or more (4)</th>
<th>Not sure (5)</th>
<th>(1) &amp; (2) as % to number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Council</td>
<td>8</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>75.0</td>
</tr>
<tr>
<td>Urban Council</td>
<td>8</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td>75.0</td>
</tr>
<tr>
<td>Pradeshiya Sabha</td>
<td>99</td>
<td>59</td>
<td>14</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>73.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>115</strong></td>
<td><strong>68</strong></td>
<td><strong>17</strong></td>
<td><strong>10</strong></td>
<td><strong>11</strong></td>
<td><strong>9</strong></td>
<td><strong>73.9</strong></td>
</tr>
</tbody>
</table>

The first group (Adopted) prepared all three financial statements (income statement, cash flow statement and balance sheet) using modified accrual basis accounting. The second group (Partially Adopted) prepared only the cash flow statement and income statement using accrual basis accounting. The next three groups were still preparing reports using cash-based accounting practices. The third group expected to move to accrual basis reporting within one to two years, and fourth group believed it would take more than two years. The fifth group had not made a decision about moving to accrual basis accounting.
During the interview process, the respondent revealed that two to three years are required for the move to accrual basis reporting following its introduction by the SAD. The first volume of standards was issued in 2009 and the second volume followed in 2012.

7.2.3 Non response bias

There are two potential problems with a mailed survey: low response rate and a non-response bias. In order to increase the response rate, a follow-up questionnaire package was mailed approximately six weeks after the initial mail-out. In order to eliminate non-response bias, ‘a test for non-response bias’ was conducted to compare the early and late respondents to the survey. The validity of the first and second mailing was assessed by using the t-test technique to compare the mean-values of each key variable regarding the adoption of new accounting practice. Table 7.3 shows that there are no significant differences (p<0.05) in responses in relation to the key variable of the first group-early respondents (1-102) and the second group-late respondents (103-115). Therefore, there was no evidence of a non-response bias and it was expected that the 115 respondents would be representative of all 335 Local Governments.

<table>
<thead>
<tr>
<th>Table 7.3 : Test of non-response bias</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparison</strong></td>
</tr>
<tr>
<td><strong>Prior condition phase</strong></td>
</tr>
<tr>
<td>-first group</td>
</tr>
<tr>
<td>-second group</td>
</tr>
<tr>
<td><strong>Knowledge phase</strong></td>
</tr>
<tr>
<td>-first group</td>
</tr>
<tr>
<td>-second group</td>
</tr>
<tr>
<td><strong>Persuasion phase</strong></td>
</tr>
<tr>
<td>-first group</td>
</tr>
<tr>
<td>-second group</td>
</tr>
<tr>
<td><strong>Decision phase</strong></td>
</tr>
<tr>
<td>-first group</td>
</tr>
<tr>
<td>-second group</td>
</tr>
</tbody>
</table>
7.3 Respondents’ demographic features

The respondents’ demographic features such as experience working in the public sector, accounting qualifications and job position were collected as background information. This data is presented in the following section.

7.3.1 Respondents’ work experience

A review of public sector work experience of interview respondents shows that 18.3% had less than 5 years’ experience; 59.1% 5-10 years’ experience; 19.1% 11-20 years’ experience and 3.5% with more than 20 years’ experience (refer to Table 7.4). As this study investigated accounting change over the last 10 years, the majority of respondents had been exposed to accounting change within their Local Government during this period and were therefore able to share their knowledge of the accounting change process.

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5 years</td>
<td>21</td>
<td>18.3</td>
</tr>
<tr>
<td>5-10 years</td>
<td>68</td>
<td>59.1</td>
</tr>
<tr>
<td>11- 20 years</td>
<td>22</td>
<td>19.1</td>
</tr>
<tr>
<td>&gt; 20 years</td>
<td>4</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>115</td>
<td>100</td>
</tr>
</tbody>
</table>

7.3.2 Respondents’ accounting background

The extent of accounting knowledge among the respondents is important to ascertain the context in which their views are expressed. In Sri Lanka, most Local Government institutions do not have
qualified accountants; consequently, administrative personnel handle the accounting duties sometimes without a background in accounting. The respondents were asked whether they had accounting qualifications and 73% respondents said ‘Yes’ and only 27% respondents said ‘No’.

Among the 73% respondents, 20% of respondents acquired theoretical accounting knowledge to a secondary education level. These respondents, who indicated ‘No’, had obtained practical knowledge from experience but had no formal accounting education. Table 7.5 shows the respondents’ accounting qualifications. Twenty-eight per cent of respondents had DPFM diplomas, while 20% of respondents learnt accounting theory in secondary school. Overall, the majority of Local Government participants had acquired some level of theoretical knowledge in accounting, combined with a reasonable level of relevant work experience which enabled them to understand the issues raised in the questionnaire.

Table 7.5: Accounting background of the respondents

<table>
<thead>
<tr>
<th>Name of Qualification</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master in Business Admin. (MBA) or above</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>Professional Qualification (CA, CIMA, AAT)</td>
<td>11</td>
<td>9.6</td>
</tr>
<tr>
<td>Bachelor Degree in Business (Accounting)</td>
<td>10</td>
<td>8.7</td>
</tr>
<tr>
<td>Diploma in Business (Accounting)</td>
<td>5</td>
<td>4.3</td>
</tr>
<tr>
<td>Diploma in Provincial Financial Management</td>
<td>32</td>
<td>27.8</td>
</tr>
<tr>
<td>Secondary School</td>
<td>23</td>
<td>20.0</td>
</tr>
<tr>
<td>None</td>
<td>31</td>
<td>27.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>115</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

7.3.3 Respondents’ job position

The questionnaire was posted to Local Government CFOs or the relevant person assuming the responsibilities of the CFO. Accordingly, the job position of people who responded to the questionnaire could vary from organisation to organisation. Table 7.6 shows the list of job titles of respondents with percentage of total responses.
The majority of respondents involved with accounting duties were recruited as the ‘Management Officer’ (MO). The ‘Chief Accounts Officer’ and ‘Chief Accountant’ positions were available only in Municipal Councils and Urban Councils. In most Pradehiya Sabha, the Management Officer, Program Officer or Development Officer is responsible for bookkeeping duties under the supervision of the Secretary of the Local Government.

<table>
<thead>
<tr>
<th>Position</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Accounts Officer/Accountant</td>
<td>18</td>
<td>15.7</td>
</tr>
<tr>
<td>Management Officer (Accounting/Cash)</td>
<td>48</td>
<td>41.7</td>
</tr>
<tr>
<td>Program Officer (finance)</td>
<td>26</td>
<td>22.6</td>
</tr>
<tr>
<td>Development Officer</td>
<td>14</td>
<td>12.2</td>
</tr>
<tr>
<td>Secretary</td>
<td>9</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>115</td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

7.3.4 Respondents’ demographic features associate with adoption process

A Chi Square analysis was conducted to determine whether the respondents’ background information such as their accounting qualification, experience, age, and job position had an influence on the rate of adoption. The results are presented in Table 7.7. Chi square analysis can be used to check whether there is an association between two categorical variables. The Null hypothesis assumes there is no association between background information and adoption level. The statistical results show that there was no association (p<0.05) between respondents’ background information and the adoption of new accounting practice.

<table>
<thead>
<tr>
<th>Variables</th>
<th>P value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Local Government</td>
<td>0.994</td>
<td>No association</td>
</tr>
<tr>
<td>Experience</td>
<td>0.185</td>
<td>No association</td>
</tr>
<tr>
<td>Accounting qualification</td>
<td>0.51</td>
<td>No association</td>
</tr>
</tbody>
</table>
7.4 Reasons for adoption of accrual basis reporting practice

The respondents were asked why they had started to use a new accounting practice, in order to discover whether government regulators were the source or motivation for the adoption of accrual accounting. A summary of responses is shown in Table 7.8.

Table 7.8: Reasons for adoption of new accounting practice

<table>
<thead>
<tr>
<th>Reason for diffusion</th>
<th>Rank</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation from C-LG, and auditors</td>
<td>1</td>
<td>111</td>
<td>97</td>
</tr>
<tr>
<td>Improved decision making on government account</td>
<td>2</td>
<td>89</td>
<td>77</td>
</tr>
<tr>
<td>Limitation of traditional cash based reporting</td>
<td>3</td>
<td>83</td>
<td>72</td>
</tr>
<tr>
<td>Pressure from SAD and Central Government</td>
<td>4</td>
<td>82</td>
<td>71</td>
</tr>
<tr>
<td>Follow other Local Government practice</td>
<td>5</td>
<td>39</td>
<td>34</td>
</tr>
<tr>
<td>Pressure within the organisations</td>
<td>6</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Responding to an information request</td>
<td>7</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Pressure from Finance Commission</td>
<td>7</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Pressure from donors and international organisations</td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New technique was Inherited from previous management</td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The results indicate that Local Government respondents were aware of the importance of new reporting practice which was expected to improve the decision-making process (77%) and address the shortcomings of cash basis accounting (72%). This suggests that they were aware of the innovation and innovativeness even though they were not in a position to adopt the new accounting practice. However, it would seem that the single most important reason for accounting innovation in Local Government is the recommendation of new practice from the Commissioner of Local Government (C-LG) and auditors (97%) but not directly from Central Government innovators such as SAD (71%). The C-LG heads the Provincial Local Government Department and provincial auditors conduct a close monitoring and review process of Local Government accounting and finance.
matters. The results indicate that Local Governments tend to respond positively to the recommendations of accounting reforms made by Provincial Treasury and the Audit Department, rather than being influenced by SAD. Interestingly, 34% of Local Government respondents maintained that they intended to adopt accounting reforms if other Local Governments did so.

7.5 Knowledge of accrual basis accounting

From the analysis of the interview data ‘Confidence’ emerged as a major theme in the diffusion of accrual accounting standards throughout Local Government. The participants commented that learning and education, combined with a product champion would give them the confidence to ensure the quick adoption of the accrual basis accounting standards. The majority of Local Government departments experienced a lack of knowledgeable in-house personnel which produced difficulties in accessing and gaining the necessary information and education. The data derived from the questionnaire reveals how respondents at Local Government level become aware of new accounting practice including training and education to gain technical knowledge about new accounting practice from CFOs’ perspective.

7.5.1 Diffusion of awareness about accrual basis accounting

The awareness of a new accounting practice could motivate potential adopters to seek further information and learning opportunities in order to improve their confidence regarding the new practice. The participants were asked whether they had the opportunity to participate in the development of the innovation in order to become familiar with the new accounting practice. The respondents commented that Local Government participants had various levels of participation ranging from an opportunity to participate in the innovation process to ‘active participation’ and a one-off ‘awareness seminar’. Among the different types of awareness-producing methods, the majority of respondents confirmed that either they actively participated in the innovation process
through continuous discussion and meetings, and/or participated in an awareness activity such as seminars.

In order to see how significant the awareness is in the diffusion process, Chi square analysis was conducted with the level of ‘contribution’ as the independent variable and the ‘adoption level’ as the dependent variable. The null hypothesis in these two variables was ‘independent’ or ‘no association’. The contribution types were categorised into four groups: (1) individuals who had neither actively been involved in innovation process nor participated in an awareness program; (2) individuals who had been involved only in some sort of activity in the innovation process but not in an awareness program; (3) individuals who had who participated only in an awareness program but had no active involvement in the innovation process; and (4) individuals who had been actively involved in the innovation process and had participated in an awareness program. The adoption level was categorised into two groups: (1). fully or partially adopted; and (2) not adopted, which included all other groups (i.e. adopted in 1-2 years’ time, adopted in more than 2 years’ time, and not sure).

The results found that variables were not independent (P=0.000) and had an effect on the rate of adoption. The Chi Square generated a table with a number of responses falling into each contribution type at different adoption levels. These results are given in Table 7.9.

**Table 7.9: Awareness and adoption**

<table>
<thead>
<tr>
<th>Adoption level</th>
<th>Contribution level</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopted</td>
<td></td>
<td>0</td>
<td>6</td>
<td>4</td>
<td>75</td>
<td>85</td>
</tr>
<tr>
<td>Not adopted</td>
<td></td>
<td>27</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>27</td>
<td>6</td>
<td>7</td>
<td>75</td>
<td>115</td>
</tr>
</tbody>
</table>

According to Table 7.9, the majority of individuals who adopted accrual basis reporting had actively participated in awareness programs in the introductory phase. On the other hand, the majority of
individuals who had not adopted accrual basis reporting had not actively participated in awareness programs.

### 7.5.2 Diffusion of technical knowledge about accrual basis SLPSAS

The question considered here is how Local Government officers gain access to up-to-date technical knowledge about a new accounting practice. The questionnaire was designed to discover what was the most effective channel/s used by Local Government participants to acquire practical knowledge about a new accounting practice. The effectiveness of these channels is subjective and depends on individual characteristics. The channels are ranked according to the number of responses. The preference is identified as both government choice in delivering knowledge about accounting innovation and individual personal choice in acquiring knowledge about accounting innovation.

The number of responses and percentage of the total responses for all the communication channels are listed in Table 7.10. Two columns were identified separately for the communication channels that were most used by government promoters and communication channels that were preferred by individual adopters. These two columns help to identify any difference between the promoter channel and the adopter channel. The communication channels were ranked based on the number of responses.

**Table 7.10: Diffusion of technical knowledge**

<table>
<thead>
<tr>
<th>Communication mode</th>
<th>Rank</th>
<th>Government</th>
<th>Rank</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
</tr>
<tr>
<td>Workshop at training centre</td>
<td>1</td>
<td>104</td>
<td>90</td>
<td>1</td>
</tr>
<tr>
<td>Seminars and conferences</td>
<td>2</td>
<td>103</td>
<td>90</td>
<td>2</td>
</tr>
<tr>
<td>Practical training on-Site</td>
<td>3</td>
<td>80</td>
<td>70</td>
<td>3</td>
</tr>
<tr>
<td>Government publication (e.g. Circulars)</td>
<td>4</td>
<td>76</td>
<td>66</td>
<td>4</td>
</tr>
<tr>
<td>Gaining professional qualification</td>
<td>5</td>
<td>28</td>
<td>24</td>
<td>5</td>
</tr>
<tr>
<td>In-house training facility</td>
<td>6</td>
<td>12</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Audit training</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Professional publications (e.g. journal )</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Internet</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>

165
The sheer diversity of information sources utilised by the respondents was notable and these sources were popular across the board. Largely, government policy is normally diffused via government publications such as circulars. However, in this case, only 66% of respondents identified government publications as a source of information about new accounting practices. Workshops and seminars were identified as the most common communication channels for acquiring knowledge about an accounting innovation (90%). The majority of these workshops were organised by SLILG and ICASL with training and seminar programs known as ‘capacity building programs’. In addition to the training sessions, on-site training was available upon request with the support of the SLILG. Seventy-one per cent of Local Government respondents agreed that on-site training was the most useful which is similar in number to the Local Governments who were practising modified accrual basis accounting. The results indicate that regarding the first three communication channels used for diffusing knowledge about new accounting practice throughout Local Governments there was difference between the promoters’ choice of channels and individual preferences.

In order to see how these individual sources of communication for the acquisition of practical knowledge affect the adoption of accounting innovation, Ordinal Logistic regression analysis was conducted. Logistic regression measures the relationship between the categorical dependent variable and one or more independent variables by estimating probabilities using a logistic function, which is the cumulative logistic distribution. ‘Y’ is the dependent variable in the ordinal scale (Y= adoption level) whereas ‘X’ represents the independent variable (X = knowledge gaining source).

When a binary outcome variable is modelled using logistic regression, it is assumed that the outcome variable (adoption level) has a linear relationship with the predictor variable (knowledge gaining source). Adoption level is regarded as significant (linear) with the source of diffusion of practical knowledge, if P-values are less than 0.05 (P< 0.05). Table 7.11 shows the P value and Odds
ratio in relation to each source of technical knowledge diffusion. The odds of success are defined as the ratio of the probability of success over the probability of failure (Odds ratio).

Table 7.11: Diffusion of technical knowledge and adoption level of SLPSAS

<table>
<thead>
<tr>
<th>Source of knowledge diffusion</th>
<th>Odds ratio</th>
<th>P value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government publication (i.e. Circular)</td>
<td>0.57</td>
<td>0.373</td>
<td>No Significant</td>
</tr>
<tr>
<td>Workshop organized at training center</td>
<td>3.02</td>
<td>0.106</td>
<td>No Significant</td>
</tr>
<tr>
<td>Practical training On-Site</td>
<td>5.24</td>
<td>0.004</td>
<td>Significant</td>
</tr>
<tr>
<td>Seminars/conferences (lecture type)</td>
<td>1.38</td>
<td>0.513</td>
<td>No Significant</td>
</tr>
<tr>
<td>Gaining professional qualification</td>
<td>2.08</td>
<td>0.473</td>
<td>No Significant</td>
</tr>
<tr>
<td>In-house expert knowledge</td>
<td>0.37</td>
<td>0.05</td>
<td>No Significant</td>
</tr>
</tbody>
</table>

The results of the regression analysis found that the adoption level has a linear relationship with on-site practical training which confirms the significant impact that this source has on the adoption of accounting innovation. In-house training is on the P-value border line but most of Local Government has no in-house training team. The Odds ratio of 5.24 in relation to practical on-site training indicates that the individuals who gain practical knowledge via on-site training are five times more likely to fall in a lower adoption level (where as 1= adopted; 2= partial adopted; 3= adopted in 1-2 year time; 4= adopted in more than 2 year time; and 5= not known) compared with other individuals who never use on-site training.

7.6 Persuasion for the adoption of accrual basis SLPSAS

The promoter’s ability to convey the superiority of the new practice over existing practice is an important factor in producing a favourable attitude to the acceptance of the new practice. Rogers (1995a) diffusion trajectory identified that there are five qualities of innovations (relative advantage, complexity, compatability, trialability and observability) which can influence the success of an innovation. In the interview process with the Local Government participants, this thesis found that
the qualities of accounting innovation can influence its adoption process. One section of the questionnaire included a ‘Likert-scale’ statement to evaluate the individual’s attitude and belief about the qualities of innovation and to see the impact on the diffusion process. A statement is presented on accrual basis SLPSAS to test each characteristic of an accounting innovation and the respondent is asked to indicate on a Likert scale (ranging from 1-5, where 1= strongly agree and 5= strongly disagree) the extent to which s/he believes that the characteristic can determine the success of an innovation.

Two tests were conducted the first of which was a descriptive test where mean and Standard Deviation (SD) were calculated. The second test was the Kruskal-Wallis test or One-way Analysis of Variance (ANOVA) which is a non-parametric test used for comparing two or more independent samples of equal or different sample sizes. Since it is a non-parametric method, the Kruskal-Wallis test does not assume a normal distribution of the residuals. It indicated the acceptance at each level of adoption (ranging from 1-5, where 1= fully adopted and 5 = not known when adopted) and checked whether all adopters have the same acceptance level. The null hypothesis is that the acceptance level is the same for all categories of adoption. If they are the same, the selected variables will have no effect on the adoption level (If the P-Value is less than 0.05 (p<0.05), the null hypothesis will be rejected and we can assume the acceptance level is not same in all categories).

The descriptive and ANOVA test results are shown in Table 7.12.

<table>
<thead>
<tr>
<th>Characteristics of innovation</th>
<th>Actual question</th>
<th>Mean</th>
<th>S.D.</th>
<th>P-value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplicity</td>
<td>Accrual basis accounting is easy to understand and use</td>
<td>1.47</td>
<td>0.83</td>
<td>0.307</td>
<td>No effect</td>
</tr>
<tr>
<td>Observability</td>
<td>Ability to see the results and connection of other LG, give confidence to adopt SLPSAS</td>
<td>1.54</td>
<td>0.75</td>
<td>0.002</td>
<td>Has effect</td>
</tr>
</tbody>
</table>
The descriptive results reveal that the majority of Local Government respondents were expecting a simple ($\bar{x} = 1.47$) accounting innovation which required little or no change to the current working environment and did not require extra learning or commitment. This is consistent with interview findings that the majority of public servants were highly bureaucratic and not innovative. They were accustomed to following instructions and orders from higher levels of authority. In terms of relative advantage of accrual basis accounting over the existing cash basis, the majority of participants strongly agreed ($\bar{x} = 1.57$) that accrual basis accounting provides details and accurate financial information about an organisation but the level of agreement about accrual basis accounting provides extra economic benefit over existing practice was less at ($\bar{x} = 2.28$). The majority of respondents strongly agreed ($\bar{x} = 1.54$) that the easier it is for them to see the results of an innovation implemented by other Local Governments, they more confident they are about an innovation; also, the flexibility for managers to choose the use of accounting innovation ($\bar{x} = 1.73$) gives them more confidence in the adoption process of accrual basis accounting.

However, when these variables were compared with the level of adoption, the result gave a different connotation to the individuals’ beliefs. The observability, flexibility and economic advantage have a P-Value less than 0.05 and the null hypothesis was rejected. In other words, these
variables have a significant effect on the adoption of accrual basis accounting. Even though the majority of participants believed that accounting innovations need to be simpler and more aligned with existing culture, values and practice, the adoption of the innovation was not handicapped by its level of simplicity or its compatibility because its introduction requires adapting accrual basis accounting as mandated by a higher authority. The questionnaire finding supported the view that ‘confidence’ was a major factor associated with the adoption of accounting innovation. This finding was consistent with the interview findings. Local Government personnel gain confidence when they have more opportunity to connect with others in the adoption process and see the results of innovation, and when they are given more flexibility to apply the new practice.

Both factors engendered more confidence and fostered a favourable attitude toward the innovation. This positive attitude offered strong encouragement to Local Government personnel that they could implement accrual basis accounting with more confidence. This process was further motivated by a Local Government ranking and award program conducted by the Ministry of Local Government and Provincial Council of Sri Lanka. In each District, the best performing Local Governments were identified under different categories and were rewarded. This created competitiveness among the Local Governments in the District who were encouraged to adopt recommended best government practice to improve performance. Therefore, neighbouring Local Governments keep an eye on each other to see what initiatives have been implemented and what process is being followed.

The reliability of accounting innovation has also had an effect on the adoption level. The reliability principle in accounting is the concept of recording only those transactions in the accounting system that one can verify with objective evidence such as purchase receipts, bank statements and valuation reports. In this case, the respondents believed that the accounting information was important to inform accurate decision making, and therefore it is more important to produce financial information on an accrual based.
7.7 Decision to adopt the accrual basis SLPSAS

The decision to adopt accrual basis accounting at Local Government level was made by MOLGPC and Local Government Department (LGD). During the interview process, the participants stated that even though the decision was made by the LGD, the Local Government was given maximum freedom to practise the new reporting. In addition to LGD, there are various other institutions involved with Local Government in this process. Even though the involvement of various stakeholders can add complexity, the Local Government participants mentioned that it made them more confident about adopting accrual basis reporting. Therefore, the respondents were asked to assess the involvement of various government and non-government stakeholders in the decision process.

The responses were analysed in both a descriptive and statistical way to see how various organisations influenced the adoption decision. The Kruskal-Wallis test was conducted to see whether the adopters at all levels had the same assessment about each organisation’s involvement in the decision process. The null hypothesis assumed that an organisation’s involvement is the same for all groups of adopters and has no effect on the adoption decision. The effect on organisations’ involvements in the diffusion process is presented in Table 7.13.

Table 7.13: Organisation’s involvement in adoption of SLPSAS

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Mean</th>
<th>S. D.</th>
<th>P-Value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka Institute of Local Governance</td>
<td>1.11</td>
<td>0.31</td>
<td>0.001</td>
<td>Has effect</td>
</tr>
<tr>
<td>Institute of Chartered Accounts Sri Lanka</td>
<td>2.41</td>
<td>1.15</td>
<td>0.135</td>
<td>No effect</td>
</tr>
<tr>
<td>Local Government Department (C-LG)</td>
<td>2.43</td>
<td>0.70</td>
<td>0.002</td>
<td>Has effect</td>
</tr>
<tr>
<td>Auditor General Department (AG)</td>
<td>2.60</td>
<td>1.11</td>
<td>0.072</td>
<td>No effect</td>
</tr>
<tr>
<td>State Accounts Department (SAD)</td>
<td>3.00</td>
<td>0.91</td>
<td>0.051</td>
<td>No effect</td>
</tr>
<tr>
<td>Provincial Council Treasury</td>
<td>3.29</td>
<td>0.79</td>
<td>0.068</td>
<td>No effect</td>
</tr>
<tr>
<td>Other Local Government</td>
<td>3.75</td>
<td>0.82</td>
<td>0.00</td>
<td>Has effect</td>
</tr>
<tr>
<td>Finance Commission</td>
<td>4.71</td>
<td>0.46</td>
<td>0.621</td>
<td>No effect</td>
</tr>
</tbody>
</table>
The respondents in this survey confirmed that the SLILG made a greater contribution to the decision process ($\bar{x} = 1.11$). The involvement of ICASL ($\bar{x} = 2.41$) and Local Government Department ($\bar{x} = 2.43$) were ranked second and third respectively. The majority of respondents assessed these three organisations had great involvement and made a significant contribution to the decision regarding the adoption of public sector standards. The Local Government participants strongly and positively recognised that SLILG and ICASL were ‘product champions’ who had expert knowledge about the innovation process. However, the Central Government innovators including the AG department ($\bar{x} = 2.60$) and SAD ($\bar{x} = 3.00$) had a moderate effect on the adoption decision. This can be further explained by the institutional arrangement of the public sector in Sri Lanka: the Central Government has no direct involvement in the process of Local Government implementation of government policy.

The P-Value obtained from the Kruskal-Wallis test significantly linked the rate of adoption in only three situations: Involvement of SLILG, Local Government Department and neighbouring Local Government. In all other situations, the organisations’ involvement in the decision process had no effect on the rate of adoption. In further examining the effect on rate of adoption, particularly with these three situations, this thesis found that the SLILG and Local Government Department involvement, the respondents who were still in transition (groups 3, 4 & 5) identified their involvement as unsatisfactory (median is 4) while respondents who were practising modified accrual accounting (group 1 & 2) were strongly satisfied with their involvement in the decision process (median is 1). In the situation with neighbouring Local Government involvement, the respondents in the transition (groups 3, 4 and 5) identified the lack of peer networking with other Local Government (median is 5), while respondents in adoption group 1 and 2 identified that they had some form of networking process with other Local Government (median is 3).
7.8 Implementation of the accrual basis SLPSAS

The implementation stage of public sector accounting reforms is often claimed to be the most difficult stage in the reform process. In this process, there might be actors, who against the reforms due to the various factors such as fear for change, job security and education level. However, in the Local Government of Sri Lanka, the government officers were not against the proposed accounting practice but the majority were hesitant about implementing the public sector accounting standards. Various challenges were faced by Local Government participants at individual level, which were classified as technical and cultural challenges. With the support of various stakeholders, most of these challenges became success factors. However, these factors caused delay and extended the adoption process.

In the questionnaire, respondents were asked to indicate the degree to which they believed that given factors inhibited the implementation of accrual basis SLPSAS in their organisation. The results are shown in Table 7.14. The responses were analysed in a descriptive way to produce the mean and standard deviation (SD) and Kruskal-Wallis test was conducted to determine the variables’ effect on rate of adoption.

<table>
<thead>
<tr>
<th>Technical and cultural factors</th>
<th>Mean</th>
<th>S.D.</th>
<th>P-Value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in performing asset valuation</td>
<td>1.75</td>
<td>0.62</td>
<td>0.000</td>
<td>Has effect</td>
</tr>
<tr>
<td>Unavailability of computerised system</td>
<td>1.98</td>
<td>0.44</td>
<td>0.565</td>
<td>No effect</td>
</tr>
<tr>
<td>Weak inter-governmental mechanism</td>
<td>1.99</td>
<td>0.55</td>
<td>0.030</td>
<td>Has effect</td>
</tr>
<tr>
<td>Inadequate training</td>
<td>2.12</td>
<td>0.38</td>
<td>0.004</td>
<td>Has effect</td>
</tr>
<tr>
<td>Lack of leadership</td>
<td>2.46</td>
<td>0.71</td>
<td>0.001</td>
<td>Has effect</td>
</tr>
<tr>
<td>Lack of detailed guideline</td>
<td>2.59</td>
<td>0.67</td>
<td>0.876</td>
<td>No effect</td>
</tr>
<tr>
<td>Timing and recognition of tax revenue</td>
<td>2.61</td>
<td>0.60</td>
<td>0.378</td>
<td>No effect</td>
</tr>
<tr>
<td>Availability of experts within organisation</td>
<td>2.67</td>
<td>0.75</td>
<td>0.035</td>
<td>Has effect</td>
</tr>
<tr>
<td>Underestimated the amount of change</td>
<td>2.77</td>
<td>0.64</td>
<td>0.059</td>
<td>No effect</td>
</tr>
<tr>
<td>Resistance to change</td>
<td>3.92</td>
<td>0.59</td>
<td>0.013</td>
<td>Has effect</td>
</tr>
</tbody>
</table>
The majority of respondents confirmed that the most challenging technical factor was associated with the difficulty of performing asset valuation ($\bar{x}=1.75$). Other highly ranked factors were the lack of a computerized accounting system ($\bar{x}=1.98$) and poor inter-governmental mechanisms for policy diffusion ($\bar{x}=1.99$). Inadequate training ($\bar{x}=2.12$), lack of leadership ($\bar{x}=2.46$) and a lack of detailed guidelines ($\bar{x}=2.59$) were also identified as factors which may inhibit the timing of individual implementation. When individuals consider the factor to be strongly inhibitive, the greater delay occurs at the implementation stage. Resistance to accounting reforms and work overload had a minimum impact on the implementation of new accounting practice within the Local Government.

In analysing the responses using the Kruskal-Wallis test, some variables were found to have an effect on the adoption level ($P<0.05$). In examining the effect of difficulty in performing asset valuation on rate of adoption, the result indicated that the individuals in group 2 who prepared only cash flow and income statements using accrual basis accounting were strongly correlated with asset valuation as the most difficult problem in the change process (median is 1). In examining the effect of inadequate training on the adoption level, the individuals in the transition period (groups 3, 4 & 5) ranked this as the most difficult problem for them at individual implementation level (median is 1). In analysing the availability of qualified accountants in Local Government, the individuals in group 1 who produced all reports using accrual basis accounting were identified as having a moderate effect on the rate of adoption (median is 3) while individuals in groups 3 and 4 were identified as having a strong effect on rate of adoption (median is 1).
7.9 Confirmation of the accrual basis SLPSAS

The ultimate test of how well accrual accounting is functioning is to see the accounting innovation in action. In the questionnaire, the respondents were asked whether there was a monitoring or review process in place to oversee the application of an accounting innovation. During the interview process, participants highlighted different types of review and monitoring processes in place. In the questionnaire, the reviewing and monitoring processes were listed to identify the process that was in place and how it affected the diffusion process. The listed monitoring processes and total responses are shown in Table 7.15. Over half of all respondents replied that external consultant/audit was the monitoring system for reporting practice. Interestingly, the budget process appeared to play a part in the monitoring of accounting reporting systems for Local Government. However, 20% of respondents replied that there was no monitoring process in place to determine the effectiveness of accounting innovation. There is no pilot testing was conducted to monitor the implementation process of accrual basis reporting practice.

Table 7.15: Monitoring the use of accounting innovation

<table>
<thead>
<tr>
<th>Monitoring technique</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit</td>
<td>4</td>
<td>3.5</td>
</tr>
<tr>
<td>External consultant/audit</td>
<td>60</td>
<td>52.2</td>
</tr>
<tr>
<td>Report review</td>
<td>19</td>
<td>16.5</td>
</tr>
<tr>
<td>Informal review</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>Budget review</td>
<td>7</td>
<td>6.1</td>
</tr>
<tr>
<td>User review</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Pilot studies</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>In-house team</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Not sure</td>
<td>11</td>
<td>9.6</td>
</tr>
<tr>
<td>None</td>
<td>11</td>
<td>9.6</td>
</tr>
</tbody>
</table>

A Chi-Square test was conducted to determine whether there was any relationship between the monitoring system and the rate of adoption. The null hypothesis assumes that the two variables are
independent or have no association. If the P value is less than 0.05, the null hypothesis is rejected. The result indicated that variables were not independent (P=0.000) and had an effect on the rate of adoption. The result identified a number of responses that fell into different adoption levels. The results are given in Table 7.16.

**Table 7.16: Monitoring system in place and adoption**

<table>
<thead>
<tr>
<th>Adoption</th>
<th>External consultant</th>
<th>Report review</th>
<th>Not sure</th>
<th>None</th>
<th>Budget review</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopted</td>
<td>59</td>
<td>14</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>78</td>
</tr>
<tr>
<td>Not adopted</td>
<td>1</td>
<td>5</td>
<td>11</td>
<td>9</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>19</td>
<td>11</td>
<td>11</td>
<td>7</td>
<td>108</td>
</tr>
</tbody>
</table>

The results suggest that the individuals, who had an external consultant for their ongoing assessment and review, would be able to drive the diffusion process toward possible confirmation without major hassles and delay.

**7.10 Chapter summary**

This chapter presents the analysis of questionnaire responses related to the diffusion process of the accrual basis standards from the perspective of Local Government officers’. In summary, the following key findings emerged from the survey data which are worthy of special note:

1. The majority of Local Government entities implemented accrual basis reporting and a reasonable number successfully completed the process within 2-3 years of introducing the new accounting practices.

2. The type of Local Government (Municipal Council, Urban Council or Pradeshiya Sabha); the availability of qualified personnel within the organisations; and experience in accounting did not have a significant influence on the extension of the adoption process of accounting innovation.
3. Local Government officers were highly bureaucratic and less innovative. However, finance managers tended to respond more quickly and positively to the accounting reform process diffused through the Local Government Department as a recommendation rather than government influence or pressure.

4. Local Government officers who participated in awareness programs and discussions and meetings with provincial authorities and auditors achieved an 85% success rate in the adoption of accrual-based reporting practice.

5. The evidence indicated that personnel in Local Government do not really understand the responsibility of keeping informed through their own professional development. Instead, mandatory training and education systems were more useful. The most influential or effective means of communication of practical knowledge to Local Government personnel were workshops and training sessions.

6. The reliability of information produced by the proposed accounting standards; access to a step-by-step reporting guide; and the ability to access reports produced by other Local Governments highly influenced the adoption of proposed accounting standards among Local Government staff.

7. Local Government officers have less autonomy and voice in the reform process but the Commissioner of Local Government and Secretary to the Ministry of Local Government can make a difference. Although the degree of autonomy did not make a difference to the rate of adoption, the continuous involvement of higher authority and regulators who made decisions was really important in the adoption process.

8. Collective leadership through the Department of Local Government and provincial Treasury, and strong product championship provided by SLILG, ICASL are key factors in the negotiation process which would able to build confidence regarding the new practice among Local Government
participants. The negotiation resulted in an alteration to the preface and introduction of accrual basis standards in order to make them more appropriate for Local Government personnel’s cultural and individual circumstances.

9. The external monitoring process provided by SLILG and the provincial treasury through the appointment of a coordinator would result in greater success of the innovation.
8.1 Chapter overview

The purpose of this chapter is twofold: first, it discusses the findings from the interview and survey data analysis used to address the research questions of this study and to describe the diffusion of accrual accounting practice throughout public sector organisations in Sri Lanka. The accounting innovation originated at Central Government (innovator) and was diffused through a top-down process throughout Provincial and Local Governments (adopters). Second, the thesis will be concluded in the latter part of this chapter. The chapter is structured as follows. The next section presents the discussion of the qualitative survey analysis in accordance with Rogers’s five-phase diffusion process (knowledge, persuasion, decision, implementation and confirmation) to describe the diffusion process of accrual basis accounting in Sri Lanka’s public sector. This section also maintains the same diffusion structure to discuss the findings. The third section synthesizes the objectives, questions and key findings of the study. The fourth section presents the implications of the study in terms of theory and practical application. The fifth section explains the limitations of the study followed by suggestions for future research directions. Section 8.7 concludes the thesis.

8.2 Discussion of findings

8.2.1 Knowledge of accrual basis accounting

This thesis found that knowledge is centralised and it is a key aspect of the diffusion process. But the success of the diffusion of knowledge is dependent upon the resources available and the characteristics of the knowledge infrastructure which affect the search behaviour and the degree of uncertainty associated with adopting new accounting practice. International organisations, mainly
the World Bank and the ADB, promoted international accounting standards and practices within developing countries and organised initiatives to conduct various workshops, conferences and seminars for key public sector stakeholders which in turn developed a favourable attitude toward the adoption of accrual basis accounting. Knowledge diffusion was further mobilised by professional accounting associations such as the Institute of Chartered Accountants of Sri Lanka (ICASL) through their professional expertise and inputs. The ICASL had developed customised accrual basis accounting standards for the Sri Lankan public sector through the establishment of its PSASC. So far, 10 SLPSAS have been drafted and issued to public sector organisations (please refer to Table 8.1 for a complete list of standards). The standards were issued by the ICASL with the permission of the International Federation of Accountants (IFAC). These standards apply to all public sector entities that follow accrual basis accounting where General Purpose Financial Statements are prepared. The public sector entities are the Central Government, Provincial Councils, Local Governments and not-for-Profit Statutory Bodies, and Universities. This does not cover government-owned business entities which are governed by Sri Lanka Accounting Standards (SLAS) issued by ICASL.

**Table 8.1: Sri Lankan Public Sector Accounting Standards**

<table>
<thead>
<tr>
<th>Volume</th>
<th>Number</th>
<th>Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume I -2009</td>
<td>SLPSAS 1</td>
<td>Presentation of Financial Statements</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 2</td>
<td>Cash Flow Statements</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 3</td>
<td>Accounting Policies, Changes in Accounting Estimates &amp; Errors</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 4</td>
<td>Borrowing Costs</td>
</tr>
<tr>
<td>Volume II - 2012</td>
<td>SLPSAS 5</td>
<td>The Effects of Change in Foreign Exchange Rates</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 6</td>
<td>Events After the Reporting Date</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 7</td>
<td>Property, Plant &amp; Equipment</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 8</td>
<td>Provisions, Contingent Liabilities &amp; Contingent Assets</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 9</td>
<td>Inventories</td>
</tr>
<tr>
<td></td>
<td>SLPSAS 10</td>
<td>Revenue from Exchange Transaction</td>
</tr>
</tbody>
</table>

(Source: ICASL 2009,2012)

In introducing accrual basis accounting into public sector organisations in Sri Lanka, government and non-government training institutions organised a series of seminars and conferences for public
sector accountants. The ‘MILODA’ academy of financial study which operates under MOF, SLIDA, SLILG and ICASL are major training providing institutions in public sector accounting reforms. The SAD is entrusted with the responsibilities of developing, maintaining and providing training and necessary instruction related to government accounting reforms. For example, with the introduction of an updated version of Computerized Integrated Government Accounting System (CIGAS) in 2014, the SAD conducted 34 one day CIGAS workshops at MILODA for public sector accountants and subject clerks (SAD, 2015). In the workshop, the SAD provided CDs of the new CIGAS program and a manual for each and every accounting unit, and discussed matters related to carrying out final accounts and issues regarding accounting and financial reporting.

These organisations organised several capacity-building programs to promote accrual accounting programs in the public sector in the country. However, the interview findings revealed that the majority of Provincial Government CFOs maintained up-to-date accounting knowledge through their professional memberships of ICASL, CPA, CIMA or AAT. The CFO as head of accounts is responsible for disseminating accounting knowledge to lower level staff within the organisation. The CFOs insisted that implementing staffs need more implementation knowledge rather than learning more theory about a new accounting technique or practice which was not catered for by most of the seminars and conferences organised by government regulators. The CFOs emphasised that Provincial Governments had limited resources and opportunity to improve their technical capacity through professional development to impart the knowledge needed for implementing accrual basis accounting. For example, many CFOs were disappointed that there had been no opportunities for them to attend international workshops to understand how other countries’ provincial systems had moved into accrual basis accounting from cash basis of accounting, and to ensure whether it could be applied in Provincial Governments in Sri Lanka. Prior studies on public sector reforms demonstrated that limited technical capacity is a major obstacle to achieving desired outcome in most reform processes in most developing countries (Samaratunge et al., 2008, Sarker, 2006).
To address this situation, the ICASL, as a state accounting body established by an Act of Parliament in 1959, had undertaken various initiatives to improve the technical capacity of public sector CFOs and accountants. In 2012, the Association of Public Finance Accountants of Sri Lanka (APFASL) was established as a public sector wing of ICASL, with the primary objective of enhancing the skill and expertise of public sector accountants, auditors and assessors to improve financial management practice in Sri Lanka. This covered a multitude of areas including the implementation of Treasury circulars on the accrual accounting system, the introduction of a new coding system for reporting fixed assets, the introduction of an accrual based accounting system, the transition of accrual based accounting system in ministries and departments, and assets management in the public sector, application modalities of SLPSAS for government organisations and introducing participants to the SLPSAS. The ICASL invited all public sector officials who worked in accounts, finance or/and audit to become members of APFASL. Prior studies suggest that professional associations could be important in the innovation process because they encourage the development of closer collaborative links among public sector organisations (Alter and Hage, 1993).

The SLPSASs were developed by PSASC of ICASL but the monitoring and implementing role in diffusing knowledge was undertaken by ICASL. In developing these standards, the PSASC was responsible for determining public sector accounting requirements, exchanging views about the issues with public sector officials by providing an opportunity for comments by prospective users including various Ministries, Department, Provincial and Local Governments. However, the existence of this process was questionable. The interview findings provide evidence that Provincial Government CFO had weak collaboration with PSASC in the standards development process. This is similar in many developing countries (Adhikari et al., 2015). This lack of engagement and coordination between innovators and adopters impacted on the diffusion process in many ways.

This study found three negative impacts on the diffusion process, resulting from the weak relationship between innovators and adopters, which could delay diffusion and adoption of accrual basis accounting in Provincial Government. These were: (1) lack of awareness about accrual basis accounting and standards; (2) lack of incentives to undertake preparation activities for implementing accrual basis accounting; and (3) lack of motivation to drive the diffusion process within a reasonable time.

The Provincial Government CFOs remarked that the innovators (SAD & PSASC) were unable to create a better platform for discussion and exchange views about the public sector accounting issues and standards development process. However, the participants from SAD insisted circulars letter were the main method used to communicate accounting reforms to public sector officials. In communications via circular in Sri Lanka, there is an issue regarding its effectiveness as an information exchange channel particularly in accounting reform. Generally, a circular is addressed to the head of a government organisation such as the Chief Secretary (CS) in Provincial Government. But the CS is not the head of accounts and finance and in most situations, the CS is qualified administrative officer but not a qualified accountant. However, the CS is responsible for redirecting these circulars to relevant personnel within the organisation and inviting them to provide comments and suggestion. However, Provincial Government CFOs did not have a reasonable opportunity to be involved in the standards development process. As revealed by the interviewees, the first set of four standards was released in 2009 but they had only a one-day workshop to discuss and provide feedback on these drafted standards. Rogers (2003) stated that change agents are responsible for developing a need for changes and for establishing an information exchange relationship with clients in order to create awareness about an innovation. However, the majority of Provincial Government interviewees stated that collaboration with PSASC was not strong enough to provide information about the standards.
Rogers (1995, p.181) stated that “if an individual become aware of a felt need and seeks information about an innovation to meet this need. Here, an adopter’s need for the innovation can motivate the individual’s information-seeking activity about the innovation”. As a result, the CFOs were not motivated to seek information about accrual basis accounting and understand what requirements needed to be met before being implemented. Evidence from the interviews indicated that Provincial Governments were unprepared for implementing accrual basis accounting due to the lack of training given to lower levels staffs, no delegation of responsibility, no action plan to implement accrual basis accounting and limited technical knowledge about accrual basis accounting. Prior studies identified that adopting organisations need to be prepared by ensuring adequate staff training and necessary software updates in order to achieve the successful implementation of an accounting innovation (Hepworth, 2003). Hence, CFO leadership is really important in improving the organisational capacity to drive the diffusion process toward possible confirmation of innovation.

The Provincial Government CFOs believed that they should receive incentives and rewards based on their performance in driving the reform process. It is not just about financial remuneration, but more about recognition, better job position, more job facilities, and more professional development including overseas training. They insist that reforms require extra commitment and they need to give priority to their everyday work responsibilities. The CFOs have access to resources, but more importantly, these need to be managed and put in place in order to implement accrual basis accounting. For example, all CFOs have professional accounting qualifications in and are members of an accounting body. So they do have access to an external organisation (such as ICASL) which can give them the necessary knowledge, but more importantly, disseminate that knowledge and experience within the organisation. This requires extra effort and commitment. Previous public sector reforms literature in Sri Lanka explained that the absence of an inter-governmental mechanism for policy diffusion is a major problem in public sector reforms (Samaratunge and Bennington, 2002, Gunawardena et al., 1996). This study found that CFOs can play a greater role in
building that inter-organisational mechanism for policy diffusion through their own networking. But this depends on how they are incentivised to accept the reform.

This study found that Local Government accountants relied more on informal interpersonal networking as a way of acquiring information and awareness about accounting innovation compared to Provincial Government CFOs. This included talking to experienced and qualified senior officers in Provincial departments, or the audit department or even retired officers, and collaborating with other Local Government through personal connections. Prior networking research found that less formal networks such as collaboration with peers may be important for the diffusion process (Robertson et al., 1996). Rogers (1995) argued that individual is unlikely to encounter new ideas through strongly interconnected close-knit social networks because individuals in the same social clique tend to possess similar information. Among Local Government in Sri Lanka, there were lead users who could see the benefits that the new accounting practice offered. Most of these users were leaders in accrual basis accounting and became a driving force behind recommending new practice to neighbouring Local Government. Midgley et al. (1992) emphasised the importance of networking in gaining knowledge about diffusion while some prior public sector diffusion studies did not find that networking was an important means of obtaining knowledge about public sector reforms (Lapsley and Wright, 2004). Both interview and survey findings provided evidence that an informal interpersonal network is important in driving the diffusion of accounting innovation throughout public sector organisation. The interview participants remarked that this interpersonal connection gave them more confidence about the adoption and implementation of new accounting practice.

The interview and survey findings supported the view that the majority of Local Government respondents preferred workshops or on-site training as a way of learning about accrual basis accounting. Less than 4% of respondents intended to acquire a professional or academic qualification in order to learn accrual basis accounting. The SAD web site is designed to enable the
public, as well as the line agency accountants, to review the year-end results on-line. Contact names within the SAD and an e-mail address are provided on the Web site for those wishing to raise direct questions. But the majority of Local Governments have limited access to the Internet and Information Technology. The survey finding revealed that only 11% of respondents used modern technology such as the internet for the purpose of obtaining necessary knowledge about accrual basis accounting.

However, more than 87% of respondents preferred practical workshops and 71% of respondents preferred on-site training as a way of acquiring practical knowledge. The interview finding suggests that most respondents preferred to have implementation knowledge rather than learning more about accounting theory. The SLILG organised a series of workshops in collaboration with ICASL, covering most of the Local Governments country-wide. SLILG is mandated to conduct capacity building programs and supports Local Governments through training, consultancies, dissemination of information leading to innovation and effective local governance. In addition, SLIDA offered various training sessions and short courses to Local Government officials in relation to accounting reforms. Rogers (1995, p.19) remarked that “more effective communication occurs when both sender and receiver share common meaning, a mutual subcultural language, and are alike in personal and social characteristics”. According to this finding, Local Government accountants can understand the practice of accrual basis accounting, more easily when technical knowledge is diffused through specific training like hands-on workshops or on-site training and it produces a high rate of adoption. This finding is inconsistent with prior knowledge diffusion studies in public sector reforms which found that public sector officials prefer to have traditional sources such as publications and professional membership as a way of acquiring practical knowledge (Jackson and Lapsley, 2003, Lapsley and Wright, 2004).

10 http://www.slilg.gov.lk/web/
8.2.2 Persuasion for the adoption of the accrual basis accounting

The NPFM attempts to achieve accountability and transparency of the public sector through an efficient and transparent financial reporting system which is extremely important in view of increasing awareness of the use of public funds by governments. The IFAC (2011) statement about the importance of international standards in the public sector is as follows:

In the public sector, international standards ensure that governments and other public entities are held to the same level of accountability as the private sector. This is especially relevant as many governments, in addressing the global financial crisis, have assumed vastly expanded financial responsibilities and are seeking ways to prevent future sovereign debt crises. Both of these situations highlight the need for greater transparency and accountability in the public sector (p. 2).

Realizing the importance of financial reporting system, governments of developing countries have introduced accrual based IPSASs in their public sector organizations. Thus, the introduction of accrual accounting to the public sector was an important part of the public sector reforms and it became a global trend in the recent past. The accrual accounting reforms were introduced to LDCs by external international agencies such as the IMF, the European Bank and OECD, the World Bank, IFAC and the ADB mainly in order to facilitate public sector reforms (Rahaman and Lawrence, 2001, Hepworth, 2003, Carlin, 2005, M., 2005, Connolly and Hyndman, 2006a, Robinson, 1998).

Despite the success of international agencies and the professional accounting associations in persuading Central Government officials to adopt accrual basis accounting standards, persuading Provincial Government CFOs to accept accrual accounting was not a straightforward process. The majority of Provincial Government participants stated that they did not understand the added value in terms of the economic advantages of adopting accrual basis accounting. Prior studies in public sector reform show that the failure of most reforms was due to the Government’s inability to convince adopters of its true value; rather, adoption was a consequence of pressure (Lapsley and Wright, 2004, Adhikari et al., 2015). For the Provincial Governments in Sri Lanka, the main source of
Cash inflow is government funding through budgetary allocation on the recommendation of the Finance Commission (FC). Therefore, when introducing new accounting or budgeting practice into Provincial Government, the FC can play a major role in extolling the virtues of the reform and how it can add value to the public sector. Feller and Menzel (1977) stated that the acceptance of an innovation will be more rapid where there are performance standards and/or professional pronouncements regarding the need for productivity improvement. A mandate from a higher authority in the public sector can greatly increase the diffusion of a policy innovation (Berry and Berry 1999). The interview findings provide evidence that FCs as intermediary organisations in diffusion process did not play a major role in promoting accrual basis accounting within Provincial Governments.

The interview findings support the view that the majority of Provincial Government CFOs hesitated to apply some of the proposed accounting standards due to their complexity. For example: SLPSAS 5 - The effects of changes in foreign exchange rates, SLPSAS 7 - Property, Plant & Equipment, and SLPSAS 10 - Revenue from exchange transactions. Before applying these standards, organisations need to clearly identify foreign currency transactions and effective dates, net investment in a foreign operation, translation and disposal of a foreign operation, assets recognitions and valuation. During the interviews, CFOs noted that Provincial Governments have a number of foreign transactions, a number of specific assets such as historical assets, and different types of revenue. The identification and measurement of all these transactions requires specific knowledge and preparation before accrual basis accounting can be adopted. Korteland and Bekkers (2007) posited that the decision to adopt a new practice in the public sector can be influenced by the formal structure of organisations such as the degree of centralisation, functional differences and their innovation preparedness. Rogers (1995b) explained that new ideas that are simpler to understand are adopted more rapidly than innovations that require the adopter to develop new skills and understanding. The findings highlight the importance of accounting innovation which are simpler to understand and learn in order for rapid adoption to occur.
In a similar way, Local Government officials faced uncertain situations (major theme found in the interview with Local Government participants) about the adoption of accrual accounting practice. However, Local Government officials overcame this situation more quickly than Provincial Government in two ways. First, the Local Government focused on the first volume of standards which was released in 2009 in terms of learning and practising. Especially, attention was paid to the SLPSAS 1 – Presentation of financial statement and SLPSAS 2 - Cash flow statement. The interview finding indicated that Local Government put more resources into the preparation of cash flow statements as prescribed by the standards as the beginning of accrual basis accounting practice. This enabled them to understand the requirements of accrual basis accounting and reduce their unnecessary fear of changes as they had more confidence. Rogers (1995, p.243) stated that “*if new ideas can be used on an instalment basis are adopted more rapidly that innovation that are not divisible*”. The statistical finding shows that Local Governments that had tried accrual basis accounting on step by step (begins with SLPSAS 2- cash flow statement) had a significant positive impact on the rate of adoption.

Second, the interview participants believed that if their organisation had more opportunity to see the results and achievements of accrual basis accounting of other Local Governments who became lead users, it is highly likely that they would decide to move to accrual basis accounting with more confidence. Lead users can influence other individuals’ opinion of an innovation within the social system (Rogers, 1995b). This is more like an informal type of connection rather than formal collaboration. According to the survey findings, 20% of respondents claimed that they used informal networking as a way of acquiring practical knowledge. Rogers (1995, p.244) stated that “*the easier it is for individuals to see the results of an innovation, the more likely they are adopted it.*” Visible results reduce uncertainty and also stimulate peer discussion of a new idea, as friends and neighbours of adopters often request information about it. The survey finding supports the view that those who saw the results of accrual basis reporting and had discussions with other Local Government personnel who had already adopted accrual basis reporting, tended to adopt accrual
basis accounting within their organisation as well. Moving onto Abrahamson (1991) conceptual matrix, the results indicate that the adoption of accrual basis accounting in Local Government could be explained from the trend perspective, with one local government being followed by other local governments.

8.2.3 Decision to adopt the accrual basis accounting

The World Bank and ICASL encouraged Sri Lankan governments to make the transition to accrual basis accounting and to harmonize national requirements with the SLPSAS. Public financial management relies on a comprehensive and timely accounting and financial reporting system that is supported by competent assurance from a professional audit function, stating that the system is working properly and that the information is reliable. Current enforcement of adequate compliance with Financial Regulations in the general budget sector and corporate governance in the public enterprise sector falls short of satisfactory standards.

In terms of the decision to adopt the accrual basis accounting standards, Provincial Government CFOs were under pressure from Central Government innovators to adopt it as a statutory requirement. The Provincial Government in Sri Lanka has a fully devolved financial system which means Provincial finance is managed and controlled by the Provincial Treasury. They have more independence in deciding the accounting and finance policies to be implemented. The Governor of the province serves the executive functions of the councils and is the President’s representative in the province. The interview findings provided evidence that the majority of CFOs considered that accrual basis accounting would provide more detailed and accurate financial information compared to current cash basis accounting. Also, in order to maintain a uniform accounting practice throughout the public sector organisations, they accepted the move to accrual basis accounting at organisational level. According to Rogers, this decision to accept accrual basis accounting is an example of ‘optional innovation-decisions’ where individuals have more independence to decide the
acceptance or rejection of an innovation. As an extension of previous studies on accounting innovation, this study found that the adoption decision is not only a function of the outcome of a rational decision-making process and pressure (Malmi, 1999), but is also crucially dependent on the characteristics of the individuals responsible for such a decision.

On the other hand, Local Government department is primarily responsible for diffusion and adoption of accrual basis accounting in Local Government. The Commissioner of Local Government (C-LG) as the head of the Local Government department is able to exercise his/her position of power in order to decide the implementation of accrual basis accounting. The Ministry of Local Government and Provincial Council (MOLGPC) is the Central Government ministry for policy development for Local Government. But accrual basis accounting originated with the MOF (innovator). Therefore, MOF had to communicate the diffusion of the accounting innovation to Local Government through MOLGPC, and MOLGPC can direct the C-LG to oversee the implementation process of accrual basis accounting. According to Rogers, the decision to accept accrual basis accounting at Local Government level was the decision of a higher authority; therefore, the adopters had less input into the decision-making process.

Moving onto Abrahamson (1991) conceptual matrix, the decision to adopt accrual basis accounting by Provincial Government could be explained through efficient-choice rather than forced selection. The CFOs believed that accrual basis accounting provided more accurate and complete financial information about an organisation. However, CFOs do not have much understanding of whether accrual basis accounting produces more economic benefit than does the cash basis accounting. However, the reasons behind the adoption of accrual basis accounting of Local Government could be understood in terms of forced selection. That is, the adopters had to apply the new idea due to statutory requirements, regardless of the costs and benefits to the Local Government. Consistent with prior studies on public sector reforms, Local Governments were more under pressure from a higher government authority to adopt new accounting reforms (Lapsley and Wright, 2004), while
Central Government was more under pressure from International donor agencies to adopt new accounting reforms (Yapa and Guah, 2012b, Adhikari et al., 2013).

8.2.4 Implementation of the accrual basis accounting

The interview results indicate that the implementation of accounting innovation at Provincial Government level is more complex than at Local Government. This was mainly due to their responsibility for driving diffusion, resource availability to meet the information requirement, and degree of uncertainty associated with adopting accrual basis accounting. The Provincial Government CFOs were responsible for driving the diffusion process within the Provincial Governments while Department of Local Government and SLILG were mainly responsible for implementing new accounting practice at Local Government level. The various government and private sector individuals and organisations were involved in the diffusion process at different stages to cater for professional knowledge requirements and provide human, technical and capital resources to support the diffusion and adoption of accrual basis accounting. However, at the Provincial Government level, leadership and commitment did not exist to manage these resources and external assistance was required in order to drive the diffusion and adoption process. As highlighted above, the Provincial Government CFOs had a lack of awareness, recognition and incentives (not financial but more socio-economic such as more training overseas, attractive benefits for position, and rewards dependent on performance evaluation), resulting in a lack of motivation to manage, delegate and implement an action plan to adopt accrual basis accounting. Rogers (1995) explained that in some diffusion, individuals want to behave in a way that is similar to that of the innovators: more formal education, higher socio-economic status, and the like in order to drive diffusion the desired way. The Provincial Government CFOs expect similar education and socio-economic status as those that the Central Government innovators had in this diffusion process.

The Provincial Government CFOs were hesitant about implementation due to its complexity and requested more information and clarification about particular standards such as revenue from
exchange transaction, minority interests, adjustment on foreign exchange rates and recognition and measurement of certain assets. The other issue is that Provincial Government CFOs have concern about matching the budgetary approach and the reporting approach. The current budgetary approach of Zero Based Budgeting (ZBB) and Performance, Planning Budgeting (PPB) follows the cash basis principal. When moving to accrual basis reporting practice, the budgetary approach needs to move to the accrual basis principal. However, the Central Government interviewees acknowledged that there would not be any issues with moving to accrual basis reporting using the current budgetary approach. This finding indicates the importance of individuals becoming aware in advance of the need for an innovation. The adopter’s need for the innovation can motivate the individual’s information-seeking activity regarding the innovation.

Due to the lack of organisational preparedness to implement innovation, Provincial Governments did not have the technical capacity to adopt accrual basis accounting which became one major factor delaying the implementation of innovation in Provincial Governments in Sri Lanka. Sarker (2006) identified technical capacity as the major reason for the failure or delay of government reforms at organisational level. The technical capacity included having qualified people at implementation level, an action plan for recognising and measuring assets, revenue and liability; and the unavailability of a computerized system to support accrual basis reporting. However, various government departments such as the State Valuation Department and international financial agencies such as the ADB provide assistance to improve the technical capacity of personnel such as carrying out asset valuation for Provincial Government, and funding to develop a new computerized system to support accrual basis accounting. However, Local Government had experienced similar issues including the valuation problem, lack of qualified staff and unavailability of a computerized system. However, managing of these issues in moving to accrual basis accounting is best at Local Government level with the support of intermediaries (such as SLILG, ICASL and Department for LG). The Local Governments are much smaller in terms of number of assets owned, revenue earned, and accounting transactions, compared to Provincials Government. Most Local Governments focused on
the preparation of cash flow statements which required less preparation compared to the balance sheet required by accrual basis accounting. Secondly, most Local Governments maintained an asset register manually which had all the information about assets and it made the valuation process quick compared to the Provincial Government situation. The third thing is that Local Governments used to prepare financial statement manually on worksheets, and did not rely on a computerized system.

The Local Governments that adopted the new accounting innovation were influenced by a higher authority (Local Government Department). The Department was under pressure from the Ministry and AG department to implement accrual basis accounting as demanded by a circular (January 2014) issued jointly by MOLGPC and AG. The Commissioner of Local Government (C-LG) provided leadership in implementing government policy in Local Government with the support of other intermediary organisations such as the SLILG and ICASL. The quality of leadership is important in driving the diffusion process. Rogers (1995) identified that if the opinion leader has a higher status than or power over followers, leaders/he can influence others to adopt the innovation through interpersonal network links. The SLILG and ICASL were involved in delivering practical knowledge and provide other assistance to implement accrual basis accounting in Local Government under the supervision of C-LG. Rogers (1995, p.295) stated that “change agents work through opinion leaders in order to close the heterophily gap with their client”. The survey findings provided evidence that the Local Government officers, who had received implementation knowledge and continuous support from SLILG and ICASL, were more likely to adopt the accrual basis reporting within a reasonable time compared to other Local Government personnel.

The Local Governments, who possessed expert knowledge, leadership and other resources through internal or external networks, adopted accounting innovation without major delay and became lead users. Most of these lead users operated as product champions and became the driving force behind the accrual accounting within peers among Local Government. Rogers (1995) stated that most individuals depend mainly upon a subjective evaluation of an innovation that is conveyed to them by
other individuals like themselves who had previously adopted the innovation. This did not exist in Provincial Governments and all are delaying the implementation process due to the various issues mentioned above. During the interview process, the interviewer noted that some CFOs had provided extra commitment and leadership to drive the implementation process of accrual basis accounting by, for example, implementing action plan to recognise and measure assets, and they achieved significant success. The interview findings reveal that they are willing and able to share their success story with others; but have limited opportunity to initiate peer discussion of a new idea.

8.2.5 Confirmation of the accrual basis accounting

The interview findings revealed that the majority of Provincial Government accountants continued to seek more information on PSAS knowledge and practice competencies relating to accrual basis accounting in order to ensure their confidence and reduce their feeling of dissonance. Rogers (1995) identified that individuals who feel dissonance will ordinarily be motivated to reduce this condition by changing their knowledge, attitudes, or actions. The majority of participants highlighted the importance of reviews and discussion among their peers, in order to work out solutions for most common issues such as: SPSAS-7 recognition and measurement of assets; SLPSAS-10 revenue from exchange transactions; SLPSAS 8- identify contingent liabilities and contingent assets; and SLPSAS 9- identifying and valuing inventory within Provincial Government. The more pertinent fact is that all the members in a social system (at least all CFOs in Provincial Government) should become aware of a perceived need for accrual accounting and seek information about an innovation to meet this need. The government innovators (PSASC and SAD) are primarily responsible for creating this awareness among public sector adopters of accounting standards. In addition, FC can play an important role in convincing potential adopters in Provincial Governments of the economic advantages of accrual basis accounting as FC is responsible for allocating performance-based funding to Provincial governments.
Previous studies have suggested that later adopters were more likely to discontinue innovations than were the early adopters (Perera et al., 2003a). However, there was no empirical evidence that the government accountants discontinued their adoption decision taken previously. It may be possible for Provincial Government to introduce accrual basis reporting gradually rather than attempting the entire package reform at once. This step-by-step approach to innovative practices may enable them to invest more resources in achieving another step toward full accrual basis accounting and regain confidence toward new practice and understand the benefits of it. Perera et al. (2003a) found that the introduction of transfer pricing in the energy sector had been abolished and reinvented due to the regulations and boundaries imposed by government on their enterprises.

In extending Perera et al.’s (2003) work, this study found that amendments to the introduction of innovation may be possibly due to the degree of uncertainty associated with adopting an innovation.

Both the interview and survey findings reveal that the majority of Local Governments that adopted accrual basis accounting partially or fully, have had external consultants (auditor or member of the SLILG training team) to provide ongoing assistance and review the reporting process. The external consultants should be responsible for reviewing the progress and reporting to the C-LG and head of provincial treasury (Deputy Secretary of Finance). Prior studies on the diffusion of public sector accounting found that the monitoring and reviewing of accounting innovation in Local Government was not carried out on a significant level which resulted in the discontinuation of new accounting practices more often than not (Jackson and Lapsley, 2003, Lapsley and Wright, 2004). However, the survey responses revealed that Local Governments who had external consultants to review the implementation and use of accrual basis accounting standards, had shown greater success in moving to accrual basis accounting quicker compared with LGs who did not employ external consultants.
8.3 Synthesis of the study and key findings

The aim of this thesis was to explore and describe the way that accounting innovation is diffused throughout different layers of public sector organisations (Provincial and Local Government) in a developing country. In order to achieve this aim, the objectives of this study were twofold: (1) To explain the process of diffusion of accounting innovation explained through CFOs perspective, and (2) to identify Critical Success Factors (CSF) in the diffusion of accounting innovation in public sector organisations (Provincial and Local Government) in Sri Lanka. This study found that various stakeholders were involved with NPFM reforms in Sri Lanka. The actors that are the most influential in bringing about these NPFM reforms are financial institutions, management consultants, scholars, the media and international financial agencies. However, this study’s data collection was limited to government innovators (MOF, SAD, & PSASC) and the adopters (PG and LG) of accounting innovation to describe the diffusion process and how both parties (innovators and adopters) are connected with each other in the diffusion process with or without the involvement of intermediary organisations such as AG, SLILG, MOLGPC and ICASL.

The findings reveal that knowledge of SLPSAS is centralised in the diffusion of accrual basis accounting. However, different layers of government CFOs have different views about the resources available to acquire new knowledge and the characteristics of the knowledge infrastructure which affect the search behaviour and the degree of uncertainty associated with the adoption of accrual basis accounting. The PG CFOs required awareness and knowledge about SLPSAS in order to acknowledge the need for innovation, and to be motivated individuals to engage in information-seeking activities, while LG accountants’ required practical knowledge in order to reduce their uncertainty about adopting accrual basis accounting. Prior studies on diffusion throughout the public sector considered knowledge as a process where potential adopters are learning or gaining technical knowledge through different channels such as publications and membership (Jackson and Lapsley, 2003, Lapsley and Wright, 2004), professional associations (Walker et al., 2011), and
monthly meetings of key players (Perera et al., 2003a). However, this thesis found that knowledge is not limited to learning or gaining particular knowledge about an innovation at the beginning of the diffusion process but it all about how innovation is moving from development to confirmation of practice among the members of social system. Diffusion process of an innovation from innovators to adopters is effective only if the up-to-date knowledge and information about innovation flow continuously in both ways (from innovator to adopter and adopter to innovator) in effective manner.

The process of diffusion (objective 1) was discussed above. The Critical Success Factors (CSF) (objective 2) driving the diffusion and adoption process were found to be ‘awareness knowledge’ ‘leadership’, ‘commitment’, ‘motivation’ and ‘incentives’ were key factors, the lack of which among PG CFOs (adopters) delayed the management of available resources and the improvement of technical skills and the implementation of an action plan to adopt accrual basis accounting. While, ‘confidence gained through networking’, ‘lead users recommendation’, and ‘leadership from high level authority’ are major factors for the successful implementation of accrual basis accounting among LG adopters.

For the PG CFOs, the acquisition of knowledge about the accounting innovation was not a challenge as most CFOs have professional and academic qualifications in accounting. However, the individuals engage in active information-seeking activities about the innovation, only if the individuals felt the need for innovation to their organisation (Rogers 1995). In developing SLPSAS, the PSASC did not consider the importance of key stakeholders’ (from different layers of organisation) involvement through the establishment of a networking platform. Prior studies identified that the major reason for the failure of most public sector reforms in Sri Lanka were attributable to weak intergovernmental mechanisms in policy diffusion and implementation (Gunawardena et al., 1996, Samaratunge and Bennington, 2002). This resulted in a lack of awareness about SLPSAS and lack of motivation to engage in information-seeking activities to understand the importance of innovation
to meet their needs. This delayed the diffusion and adoption process in Provincial Governments in Sri Lanka. The findings contribute to prior literature on the diffusion process in the public sector (Jackson and Lapsley, 2003, Lapsley and Wright, 2004, Korteland and Bekkers, 2007) reinforcing the importance of communicating effectively so that all stakeholders have some interest in the innovation and have similar personal characteristics. Effective communication could have greater effects on knowledge acquisition, attitude formation, and desirable overt behaviour change regarding innovation.

This study finding reveals that the implementation of accounting innovation was handicapped by the continuous leadership and commitment from higher level of authority within the organisations. In a similar way, Jae Moon and deLeon (2001) found that reinvention-oriented leadership could have a strong effect on the adoption of reinvention programs among Municipal Government in the United States of America. Continuous leadership and commitment are important to drive the diffusion process within the organisation through the delegation of responsibility, managing resources by implementing an action plan for the transition process, and enhancing the technical skills of personnel in order to implement accrual basis accounting. Prior studies in public sector reforms identified that organisations need to meet a precondition to implement accrual basis accounting (Christensen and Parker, 2010, Harun and Robinson, 2010, Carlin, 2005). The failure of preparedness to implement accrual basis accounting will delay its implementation which was the case in Provincial Governments in Sri Lanka. In addition, key personnel responsible for driving reforms should receive incentives and rewards for their commitment and involvement. Hansen (2010) found that management’s preference and perception of work relations and roles in the change process are significantly related to the adoption of NPM reforms. This study found that socio-economic incentives would give the managers motivation to prioritise accrual basis accounting reforms within the organisation.
In terms of the diffusion of accrual basis accounting throughout Local Government, the adopters prefer to gain knowledge about SLPSAS and accrual basis accounting through hands-on training and learning. This highlights the importance of the type and source of the available knowledge which affect the degree of uncertainty associated with adopting a new technique. In addition, to seminars, conferences, workshops and even individual focus training organised by government and private institutions (SLILG, SLIDA, MILODA and ICASL), the lead users within Local Government have influenced the adoption decision of others. These findings support the view that recommendations of an innovation from peer lead users can influence the spread and adoption of the innovation across the social system more quickly (Rogers, 1995b).

In terms of the qualities of an accounting innovation, this study found that flexibility to learn and implement the innovation gradually, and the ability to see the results of others which stimulate peer discussion and lower uncertainty had a greater influence on rate of adoption of innovation compared with other qualities of innovation (relative advantage, simplicity and compatibility) identified by Rogers (1995). Prior diffusion studies have mixed evidence about the characteristics of an accounting innovation and impact on the rate of adoption (Adhikari et al., 2015, Korteland and Bekkers, 2007, Walker, 2006, Walker et al., 2011). The majority of Local Governments participants revealed that they began the accrual basis accounting with the learning and preparation of cash flow statement in accordance to SLPSAS-2 which give them more confidence about new reporting practice and able to understand the true value of it. While Provincial Government more focused to begin this process with the recognising and measuring the assets, liabilities and revenue which is required more time, resources and commitment. This might produce more stress and uncertainty about new reporting practice. The Local Government had lead users who prioritised the accrual basis accounting reform with the understanding of benefits of innovation. The majority of Local Government participants revealed that they used more informal connection to gain information about new accounting technique. The one informal connection is talking to these lead users and been influenced by their recommendation. The Local Government individuals insist this informal
connection is more comfort for them to gain information about government reforms than more formal communication channels such as circulars letters, and web based. This findings contribute to prior networking literature (Midgley et al., 1992, Robertson et al., 1996) by understanding that informal peer networking provide more confidence to potential adopters in the implementation of accrual basis accounting.

8.4 Implications of the study

The implications of the study, discussed below, are twofold. First, the results of the study have contributed to previous research in the areas of diffusion and public sector reforms by examining the hierarchical diffusion process of accounting innovation in the public sector of a developing country. The results also have important implications for the accounting policy developers in public sector organisations in a developing country.

8.4.1 Theoretical implications

This study examined the diffusion of accounting innovation (Rogers, 1983) in many different ways and its findings contributed to: (a) the exploration of the current moving process of accrual basis accounting from knowledge diffusion to confirmation of innovation, (b) the identification of individual (CFOs) characteristics of early and late adopters in the diffusion process, (c) the impact of accounting innovation characteristics of the diffusion process, and (d) the identification of critical success factors at implementation process of accounting innovation. As a result, this study adds several interesting points to the extant body of knowledge about diffusion and public sector reforms.

First, regarding the application of the five-phase diffusion process in examining the diffusion process of accrual basis accounting, the result reveals that knowledge about innovation is not just a single step in the diffusion process but a multiple-phased process from prior condition to possible
confirmation of innovation, and diffusion is a mutual process of communication and learning. Whereas prior studies identified that knowledge is more important during the early stage of diffusion (Ax and Bjørnenak, 2005), this study found that potential adopters’ access to new knowledge is important, but more critical are the characteristics of the knowledge infrastructure which affect the search behaviour and the degree of uncertainty associated with adopting a new technique. The Provincial Government CFOs would prefer awareness and knowledge about SLPSA to motivate information-seeking activities in the diffusion process, while Local Government accountants prefer technical knowledge about accrual basis accounting to implement new technique. This indicates that the individuals responsible for decision-making about innovation require more knowledge about the innovation, while the implementing staffs need more practical knowledge.

Second, Rogers (1995b) identified that the perceived attributes of an innovation (relative advantages, compatibility, complexity, trialability and observability) have a significant influence on the rate of adoption of an innovation. This is true, although this study found that the significance of these attributes on the rate of adoption might depend on the responsibilities and roles of individuals in the diffusion process. In Provincial Government, CFOs are responsible for the decision making for the organisation and have a leading role in the reform process within the organisation. Therefore, take particular note of the cost and benefits of accrual basis accounting. Meanwhile Local Government accountants do not have decision-making power; instead they act as implementation level staff. The decision was made by MOLGPC at national level and C-LG is responsible for providing leadership to implement innovation at Local Government level. Therefore, Local Government accountants are more easily convinced to adopt accrual basis accounting by being given more flexibility to practise it gradually and more opportunity for discussion with a leader user in same social system. This finding contributes to previous diffusion literature where most studies found that attributes have a mixed impact on the rate of adoption (Korteland and Bekkers, 2007, Adhikari et al.,
2015, Perera et al., 2003a). This study found that the influence of attributes might vary between different adopters groups depending on what role they are playing in the diffusion process.

Third, it is true that Local Governments are more under pressure from C-LG and MOPCLG to adopt accounting innovation compared to Provincial Government. Prior studies in diffusion demonstrated that the adoption of innovation by public sector organisations is largely attributable to government influence (Jackson and Lapsley, 2003, Lapsley and Wright, 2004); however, the success of implementation of innovation does not depend solely on government influence but is produced by various critical success factors. These factors include individual characteristics such as leadership, commitment, incentivised and motivation and also organisational characteristics such as technical capacity to meet the requirements of innovation. This finding adds to previous studies on the diffusion of public sector reforms, which found various factors affecting adoption such as completion and product diversity (Bjørnenak, 1997), public pressure or mandates from higher levels of authority (Walker et al., 2011), and distance between supply side and demand side (not only physical) (Ax and Bjørnenak, 2005). In addition, contributing to previous networking literature (Midgley et al., 1992), this study found that informal networking is more important as a way of obtaining information to reduce uncertainty about innovation and the influence of the networking process significantly influenced the rate of adoption.

Fourth, in understanding the adoption decision regarding accrual basis accounting among different layers of governments (Provincial and Local Government) and its impact on driving the diffusion process, the results indicate several reasons behind adoption through Abrahamson (1991) conceptual matrix. Moving into accrual basis accounting at Provincial Government level is explained by the concept of efficient choice where costs and benefits to the organisations are a priority statutory requirement, while Local Government adoption of accrual basis accounting could be explained by the concept of forced selection, in that adopters had to apply techniques due to a statutory requirement, regardless of the cost and benefits to their organisation. Consistent with
findings in previous literature on public sector reforms in developing countries (Adhikari et al., 2013, Adhikari et al., 2015, Yapa and Ukwatte, 2015, Sarker, 2006, Batley, 1999, Polidano, 1999), the governments and organisations in developing countries are prepared to accept reforms under pressure from the WB and other donors, but in reality they do not accept the true value that reforms give to their government or organisation.

Fifth, in understanding the needs of different user segments, Rogers (1995b) various adopter categories can be applied here. According to this categorisation, Local Government adopters can be either early majority (adopters) or later majority (adopters), while Provincial Governments are laggards. Some Local Governments adopted accrual basis accounting standards quicker than others and they became leader users. Rogers (1995) explained that most adopters are looking for simple, proven and better way of doing what they already do. They required minimum disruption, minimum commitment of time, and minimum need for learning, and they hated complexity. The difference between early and late majorities, late majorities groups’ only driver is confidence; hence they will follow their peers and established standards. Meanwhile, laggards are people who perceive high risk or hesitate to adopt a new technique due to lack of information and knowledge. Rogers (1995) suggested giving them more control in steering the diffusion process and maximising the familiarity with the new technique which was lacking in Provincial Government in Sri Lanka.

Thus, this finding contributes to the literature on public sector reforms as it indicates that most governments organisations are prepared to accept reforms under pressure from a higher authority, but in reality they do not accept and understand the true value of innovation, and so their implementation is, at best, delayed (Adhikari et al., 2013, Yapa and Ukwatte, 2015, Samaratunge and Bennington, 2002, Kumara and Handapangoda, 2008). However, the promoter of accounting innovation can play a major role in convincing potential adopters of the benefits of an innovation. The WB and ICASL have successfully convinced the Central Government key stakeholders of the benefits of accrual basis accounting practice, one of which is that the acceptance of a global practice
will lead to more funding opportunities. The FC and the ICASL can play a greater role in convincing Provincial Government of the superiority of accrual basis accounting. The SLILG and Local Government Department need to convince Local Governments that the transition to accrual basis accounting can be accomplished easily and does not require much training or disruption to current work practices.

8.4.2 Practical implications

It is important to develop accounting innovation to meet the local requirements rather than accepting symbolic practice under the pressure of international organisations. Collaborations by the Government with professional bodies such as ICASL should be more transparent to key stakeholders in organisations in all three tiers of government. In developing accrual basis standards, ICASL had greater collaboration with Central Government key parties (members of MOFP and AG). However, the Provincial Government CFOs insisted that they had limited opportunity to network with PSASC in initiating SLPSAS. The lack of awareness about SLPSAS resulted in a lack of motivation to engage in information-seeking activities about accrual basis accounting. These information-seeking activities would encourage potential adopters to become familiar with innovation and to enhance the technical and institutional skills of personnel within the organisation by providing training for lower level staff, upgrading computer software, and recruiting new skilled staff if possible. Prior studies in public sector reforms in a developing country identified that limited technical, institutional and political capacity are the major barriers to the successful implementation of accounting reforms (Sarker, 2006, Mimba et al., 2007, Rahaman and Lawrence, 2001, Webb, 2010, Batley, 1999, Wynne, 2013, Zeghal and Mhedhbi, 2006). Therefore, when developing accounting reforms for public sector organisations, it is important that personnel in all three tiers of government be given equal opportunity to contribute to the innovation development process.

This study found that CFOs need incentives to encourage them to share their knowledge and experience of the accounting reform process. The CFO as head of accounts and finance is
responsible for improving the technical and institutional capacity necessary for the adoption of accounting reforms by using their position of power, access to resources, and networking opportunities. The regulators are responsible for giving more power to those in a position to steer the diffusion process, and providing more resources such as overseas training opportunities, and networking opportunities with innovators (PSASC) and other CFOs in Provincial Government.

In providing learning opportunities to public sector officials, the characteristics of the knowledge diffusion are important to meet individual requirement. For example, Provincial Government CFOs are responsible for driving the diffusion process within organisations, and therefore they need a better understanding of the costs and benefits of the transition to a new system which they can obtain from someone who is an expert in Provincial Government accounting. While Local Government accountants are required to use accrual basis standards in their reporting, they need more practical or technical knowledge about how to prepare financial statements in accordance with SLPSAS, and this can be delivered by an expert who understands the accrual basis accounting concept.

In convincing potential adopters of the superiority of accounting innovation, the promoter of innovation needs to customise the approach to meet the individual's role and responsibilities in the diffusion process. The Provincial Government CFOs expect accrual basis accounting to be a better system in terms of cost and benefits to their organisation, while Local Government personnel expect accrual basis accounting to be better in terms of simplicity of adoption and practice. The standards need to be presented to Provincial Government as the most cost effective approach to streamlining accounting practice, while to Local Government as the approach than can be adopted with minimum capacity development.
8.5 Limitations of the study

The results of this study are subject to three limitations typical of qualitative studies. First, the study sample comprised CFOs working in public sector organisations in Sri Lanka. The selection of CFOs was based on their role in the diffusion of accrual basis accounting which originated at Central Government and through a top-down approach was diffused throughout Provincial and Local Governments. The selection of Central Government participants was limited to those who were directly involved with the development of accrual basis accounting standards and the diffusion process. Therefore, the data collected might not be generalizable to other innovation diffusion processes in the public sector.

Second, the study sample was collected only from public sector organisations and may not be applicable to government-owned or -controlled business enterprises.

Third, the postal questionnaire was sent to the CFOs in Local Government in Sri Lanka. The instrument contained a combination of rating scale questions, open-ended questions and tick box type questions. This type of survey data can have systematic errors arising from the respondents’ tendency to ‘partition’ to avoid using the full range of rating scales, to acquiescence in providing the expected ‘right’ answer, and to suffering fatigue when completing the questionnaire. Further, there is no guarantee that the person to whom the research instrument was sent is the person who actually completed the survey.

8.6 Suggestions for future research

Primary data was collected only from CFOs or equivalent working in public sector organisations in order to obtain their knowledge and experience about the diffusion of accounting innovation. There are various stakeholders involved in this diffusion process as promoters (e.g. ICASL, and World Bank), and facilitation supporters (e.g. SLIDA, World Bank and ADB). Data in future research could be
collected from both government and non-government stakeholders in public sector reform processes to obtain additional perspectives.

The framework can be adopted to examine the diffusion process of different innovations (like human resource, or management) in public sector reforms. This would allow a comparative analysis of the diffusion process of different innovations within the public sector and could determine how individuals, organisational and innovation characteristics impact on innovation, moving from prior condition to possible confirmation.

Future research could consider the public sector in the international arena and encompass a variety of geographical, cultural and demographical contexts. This would enable a comparison within the cross-national context. For instance, do different countries CFOs behave in different ways when responding to the diffusion of accounting innovation? To what extent do these countries experience knowledge diffusion as a centralised process in the diffusion process and its influence on rate of adoption? To what degree have innovation characteristics influenced the rate of adoption? What are the critical success factors leading innovation from primary adoption to secondary adoption (individual implementation) and how does this differ from country to country? Answers to these questions require empirical evidence. Such evidence can potentially have wide practical implications for the policy innovator in the public sector, and can build a body of knowledge that can result in the wider generalizability of the diffusion process of NPFM reforms.

8.7 Conclusion of the study

This study examined the diffusion of accrual basis accounting throughout the Sri Lankan public sector organisations by adopting the five-phases (knowledge, persuasion, decision, implementation and confirmation) diffusion trajectory introduced by Rogers (1995b). Changing the existing cash basis of accounting in developing country governments has become a priority of international organisations, in particular the World Bank and ADB (Yapa and Ukwatte, 2015, Adhikari et al., 2015).
Developing countries are under pressure and urged to adopt a sequence of public sector accounting reforms, beginning with the adoption of cash basis IPSAS and then moving to accrual basis accounting (Adhikari et al., 2015). Despite the receptivity of many developing county governments to formally adopt accrual basis accounting, its implementation and confirmation have continued to be questioned. In other words, the diffusion of accrual basis accounting may not always lead to possible confirmation. This study of Sri Lanka has provided further evidence of how the diffusion and adoption of accrual basis accounting was influenced by various individual and social characteristics such as leadership, commitment, incentives, motivation, learning process, product championship and networking.

International organisations such as the World Bank and ADB are the key stakeholders who promote the accrual basis accounting framework among key Central Government stakeholders. However, the collaboration of ICASL becomes a key factor constructing a platform for moving accrual basis accounting with SLPSAS to speed the implementation process. Because the majority of government accountants resisted moving to accrual basis accounting with international public sector accounting standards, this became a real challenge in the local context. There was high demand for local public sector accounting standards. As a result, the PSASC was established by ICASL and formulated SLPSAS for public sector organisations that were moving to accrual basis accounting. However, the transition of accrual basis accounting from primary adoption (organisational acceptance) to secondary adoption (individual implementation) was both a complex and controversial endeavour at Provincial Government level rather than in Local Government.

This study contended that the formal agreement to adopt the accrual basis accounting by public sector organisations does not necessarily mean that the standards will actually be successfully implemented in the short or medium term. There have also been ambiguities regarding how the implementation process should be carried out especially regarding some standards pertaining to borrowing and funding, non-current asset recognition, and accrual of revenue and expenses. The
Provincial Government CFOs believed that they had not been properly informed and connected from the beginning of the diffusion process. The CFOs emphasised that, if they had been involved, they could have provided suggestions and ideas to improve the proposed standards to make them more user friendly.

As a result of the weak collaboration between adopters (Provincial Government) and innovators (PSASC and SAD), individuals were not aware of a need and did not encourage seeking information about accrual basis accounting to meet this need. The failure to engage in information-seeking activities resulted in a lack of preparedness to meet the requirements of accrual basis accounting and delayed the individual implementation process. CFOs leadership and commitment is really important in delegating responsibilities, managing resources by implementing an action plan, and enhancing organisational capacity to implement any accounting reforms.

Professional knowledge in government, international financial organisations and the accounting profession continue to promote new accounting practice and cater for professional needs in developing countries as best practice (Wynne, 2013). In the diffusion of accounting innovation in Sri Lanka, ICASL can create a network culture through their members to spread a new idea geographically. Because the majority of professional members of ICASL work in the private sector, the APFASL was established in January 2012 as a public sector wing of ICASL and invited all public sector accountants and auditors to become members of APFASL. Professional associations may influence the innovation process more directly by disseminating a particular body of knowledge to organisations via their members (Newell and Clark, 1990). However, this inter-organisational network is effective in the diffusion process only if the individuals engaged in professional networking in order to learn about innovation then disseminate the idea of accrual basis accounting, and influence their colleagues to adopt the new idea. The findings suggested that involvement of professional associations can be mobilised only through the CFOs’ collaboration and coordination with them.
Even though accrual basis accounting was introduced by SAD and Department of AG, the implementation pressure to Local Government came through MOLGPC and Department for Local Government. The Local Government had experienced similar technical and institutional capacity problems such as lack of experts, lack of qualified accountants, lack of technical knowledge to undertake the valuation process, and lack of political support. In fact, Local Government accountants are not decision-makers but act as policy implementers. They required more implementation knowledge, continuous leadership and a monitoring process to drive individual implementation toward confirmation of innovation. Confidence is more important for them throughout this process. The majority of Local Government personnel do not receive in-house training or have qualified accountants who can assist and advise them on the reporting process. Local Government personnel more often used informal networking to obtain subject knowledge, talking to senior accountants in other Local Government or auditor in the Provincial Treasury and audit Department.

Rogers (1995b) stated that “individuals tend to be linked to others who are close to them in physical distance and who are relatively homophilous in social characteristics” (Rogers 1995, p.311).

This informal connection gives them more confidence in any accounting reform process. The qualified accountants from SLILG and ICASL provided necessary implementation knowledge through various workshops and training sessions. In addition, users in other Local Governments recommended accrual basis accounting to other Local Government personnel and became the driving force behind the spread of accrual basis accounting among more Local Governments. The C-LG provided continuous leadership as a higher authority responsible for the implementation of government policy at Local Government level. The monitoring and review process was conducted by a member of a provincial audit department. This collaboration had greater impact on the diffusion process of accounting innovation, driving toward possible confirmation of innovation.

This thesis posited the importance of an incremental approach to public sector accounting reforms in developing countries where innovation needs to be flexible and built to adapt to individual and
social system requirements rather than forcing them to a symbolic acceptance of accounting innovation. Such an approach can help to address the actual accounting requirements of different users of government financial statements in developing countries. This thesis emphasized the importance of the effective communication process between government innovators, adopters and other intermediary organisations throughout the diffusion process. This effective communication would closely connect personnel within and between groups in the diffusion process. The individual knowledge about innovation requirements may depend on the individual’s role and responsibilities in the diffusion and adoption process. The adoption decision-makers might need knowledge which affects the degree of uncertainty about the adoption of an innovation. Meanwhile, implementers need to have access to knowledge in order to acquire more confidence during the implementation process. The government innovators and promoters are responsible for the diffusion of accounting innovation throughout public sector organisations and need a better understanding of individual and social system behaviour regarding the acceptance and adoption of accounting innovation.
REFERENCES


*Critical Perspectives on Accounting*, 23, 54-70.


UPPING, P. 2010. *Accounting Change in Thai Public Universities*. Swinburne University of Technology.


Appendix A: Institutional approval from MOF and MOLGPC to conduct interviews with government officials

To whom it may concern,

Permission to conduct interviews with Chief Accountant of this Ministry and the Accountants of Provincial Councils and Local Authorities

I wish to inform you that I would like to give permission to Mr. Thusitha Dissanayaka to conduct interviews with Chief Accountant of this Ministry and the Accountants of Provincial Councils and Local Authorities to proceed in the said project.

This letter has been issued on the request of Mr. Thusitha Dissanayaka.

Sgd/ R.A.A.K.Ranawake
Secretary
Ministry of Local Government & Provincial Councils

H.D.Y.R Wimalarathne
Assistant Secretary (Admin)
Ministry of Local Government & Provincial Councils
Thusitha Dissanayake

Chief Investigator,

RMIT University

Melbourne,

Project title: Diffusion of New Public Financial Innovation in emerging country: Sri Lankan Public Sector

I am really glad to hear about this project and I believe this might be worthy project in practically.

I am as a deputy secretary to the treasury, will provide my support and permission to arrange interview from the staff of Ministry of Finance and Planning and Department of State Accounts with their concern.

I am really happy to be a part of this interview process as a participant.

If you need any further details or interview arrangement, please don’t hesitate to contact me.

God luck with your project,

Regards,

Dr. B. M. S. Batagoda
Deputy Secretary to the Treasury
Appendix B: Ethic approval from RMIT Business College Human Ethics Advisory Network (BCHEAN)

Notice of Approval

Date: 17 February 2015
Project number: 19073
Risk classification: Low Risk
Principal Investigator: Prof Steven DellaPortas
Student Investigator: Mr Thushiha Dissanayake
Other Investigator: A/Prof Prem Yapa
Project Approved: From 17 February 2015 To 3 February 2018

Terms of approval:

Responsibilities of the principal investigator
It is the responsibility of the principal investigator to ensure that all other investigators and staff on a project are aware of the terms of approval and to ensure that the project is conducted as approved by BCHEAN. Approval is only valid while the investigator holds a position at RMIT University.

1. Amendments
   Approval must be sought from BCHEAN to amend any aspect of a project including approved documents. To apply for an amendment submit a request for amendment form to the BCHEAN secretary. This form is available on the Human Research Ethics Committee (HREC) website. Amendments must not be implemented without first gaining approval from BCHEAN.

2. Adverse events
   You should notify BCHEAN immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.

3. Participant Information and Consent Form (PICF)
   The PICF must be distributed to all research participants, where relevant, and the consent form is to be retained and stored by the investigator. The PICF must contain the RMIT University logo and a complaints clause including the above project number.

4. Annual reports
   Continued approval of this project is dependent on the submission of an annual report.

5. Final report
   A final report must be provided at the conclusion of the project. BCHEAN must be notified if the project is discontinued before the expected date of completion.

6. Monitoring
   Projects may be subject to an audit or any other form of monitoring by BCHEAN at any time.

7. Retention and storage of data
   The investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.

Regards,

Dr Christopher Cheong
Chairperson
RMIT BCHEAN
Appendix C: Participants Information and Consent Form (PICF)

RMIT UNIVERSITY
School of Accounting
RMIT University
Participants Information and Consent Form

Project title: The Diffusion of New Public Financial Management Innovation in Developing Countries:
Evidence from Sri Lanka

Principle Investigator:
Thusitha Dissanayake
PhD candidature
School of Accounting
RMIT University
E: thusitha.dissan@rmit.edu.au

Senior Supervisor:
Professor Steven Dellaportas
Deputy Head, Research & Innovation
School of Accounting
E: steven.dellaportas@rmit.edu.au
P: GPO Box 2476, Melbourne VIC 3001

Associate Supervisor:
Associate Professor Prem Yapa
Director - MPA
School of Accounting
E: prem.yapa@rmit.edu.au
P: GPO Box 2476, Melbourne VIC 3001

Date to be added

Dear Chief Financial Officer,

The purpose of this letter is to invite you (or your nominee) to participate in a research project conducted by RMIT University. Please read this letter carefully and be confident that you understand its content before deciding whether to participate. If you have any questions about this project, please contact one of the investigators.

Who is involved in this research project? Why is it being conducted?

I, Thusitha Dissanayake, am undertaking a research project as part of my PhD degree in the School of Accounting at RMIT University, under the guidance of Professor Steven Dellaportas and Associate Professor Prem Yapa. This project has been approved by the RMIT Human Research Committee in accordance with the National Statement on Ethical Conduct in Research Involving Humans.

Why have you been approached?
You are approached to participate in this research because of your position as the Chief Financial Officers (CFO) of the local council. The CFO plays an important leadership role in the diffusion of accounting techniques and practice. Your position and role as a leader makes you the most suitable person to participate in this project.

**What is the project about? What are the questions being addressed?**

This purpose of this study is to examine the diffusion of accrual accounting and associated standards (Sri Lankan Public Sector Accounting Standards - SLPSAS) across the different levels of government organisations in Sri Lanka. This research will attempt to: (1) reach a clear understanding of the way in which new accounting techniques are diffused; (2) the role played by CFOs in this process; and the factors that contribute to the success of the diffusion process. Through an extensive process of data collection and analysis, this study will attempt to answer the following research questions:

1. What are the processes by which CFOs diffuse accounting innovations among public sector organisations in Sri Lanka?
2. What are the critical success factors in diffusing accounting innovation in public sector organisations in Sri Lanka?
3. To what extent does the diffusion process contribute to the successful (or unsuccessful) adoption of accounting innovation within public sector organisations in Sri Lanka?

**If I agree to participate, what will I be required to do?**

If you agree to participate in the research project, you will be invited to complete a questionnaire, which should take about 15-20 minutes to complete. Please note that completion of the questionnaire implies that you have consented to participate in the research.

**What are the possible risks or disadvantage?**

There are no possible risks or disadvantages associated with participating (or not participating) in this project. Your involvement in this project is purely voluntary. The information obtained from questionnaires will be reported in statistical and summary form. You can be assured that you, as a participant, you will remain anonymous in any publication resulting from this research.

**What are the benefits associated with participants?**

There are no direct personal benefits associated with participating in this project, but once the data is analysed, you might be interested to see the outcome. This study will be described and explained through theory, the extent and success of adoption of accrual accounting and SLPSAS among different levels of government organisations. You might benefit from understanding the critical success factors in the diffusion process.

**What will happen to the information I provide?**

Completed and returned survey questionnaires will be securely stored in the researcher’s office in a locked filing cabinet at RMIT University, School of Accounting, Melbourne, Australia. Electronic data will be kept securely on RMIT’s main server with password protection for a period of 5 years after
publication before the data is destroyed. Only the investigator and the two supervisors will have access to the information and solely for the purpose of data entry and analysis.

The findings from this project will be disseminated in the form of conference papers and/or journal papers. When disclosed, the data will be aggregated. All the data is stored securely in RMIT main server with password protects for 5 years after publication before being destroyed. Whereas the final research paper will remain online.

**What are my rights as a participant?**

You have the right to withdraw your participation at any time, without prejudice. You have the right to have any unprocessed data withdrawn and destroyed, provided it can be reliably identified, and provided that so doing does not increase the risk for the participant. You have the right to have any questions answered at any time.

**Whom should I contact if I have any questions?**

You can contact one of the investigators stated above or directly contact the RMIT research ethics officers as per contact details listed at the end of this statement.

Thank you very much for your time and consideration.

Yours sincerely,

Thusitha Dissanayake
PhD Candidature

If you have any concerns about your participation in this project, which you do not wish to discuss with the researchers, then you can contact the Ethics Officer, Research Integrity, Governance and Systems, RMIT University, GPO Box 2476V VIC 3001. Email human.ethics@rmit.edu.au
## Appendix D: Draft interview questions

<table>
<thead>
<tr>
<th>Interview questions for Central Government innovators</th>
<th>Interview questions for Provincial Government adopter</th>
<th>Interview questions for Local Government adopter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Describe public financial reforms over the last few years. What is the reason for changes? Do you believe accounting make difference?</strong></td>
<td><strong>Do you have any pressure to improve accounting practice?</strong></td>
<td><strong>Do you have any pressure to improve accounting practice?</strong></td>
</tr>
<tr>
<td><strong>What process is involved in developing accounting innovations for public sector?</strong></td>
<td><strong>Do you develop accounting innovation for provincial government? If so how, if not, who develop?</strong></td>
<td><strong>Do you develop accounting innovation for provincial government? If so how, if not, who develop?</strong></td>
</tr>
<tr>
<td><strong>How did you become aware of existence of innovation and gain technical knowledge?</strong></td>
<td><strong>How did you become aware of existence of accrual accounting and gain technical knowledge?</strong></td>
<td><strong>How did you become aware of existence of accrual accounting and gain technical knowledge?</strong></td>
</tr>
<tr>
<td><strong>How did you diffuse that technical knowledge into other government organisations?</strong></td>
<td><strong>How did you diffuse that technical knowledge into local government organisations?</strong></td>
<td><strong>What is your possession about new accrual accounting with SLPAS? Accept it or reject it and reason for that?</strong></td>
</tr>
<tr>
<td><strong>Is it same diffusion of knowledge about accrual accounting and SLPAS into lower level government organisations? If difference, how it different?</strong></td>
<td><strong>What is your possession about new accrual accounting with SLPAS? Accept it or reject it and reason for that?</strong></td>
<td><strong>What is the reason to adopt and implement accrual accounting with SLPAS?</strong></td>
</tr>
<tr>
<td><strong>Do you think new practice improve public sector accounting? How? Do you think other staffs aware about it?</strong></td>
<td><strong>Do you believe accounting make difference? Can you see any relative advantage compare to cash basis?</strong></td>
<td><strong>Do you believe accounting make difference? Can you see any relative advantage compare to cash basis?</strong></td>
</tr>
<tr>
<td><strong>Do you think that new practice is complicated for lower level government organisations? Why think so?</strong></td>
<td><strong>Do you think that accrual basis with SLPAS is more complicated? Why think so?</strong></td>
<td><strong>Do you think that accrual basis with SLPAS was more complicated? How did you sort it out?</strong></td>
</tr>
<tr>
<td><strong>Do you think that new practice is compatible with value, experience and working condition? If not, any modification?</strong></td>
<td><strong>Do you think that new practice is compatible with value, experience and working condition? If not, any modification?</strong></td>
<td><strong>Was new practice compatible with value, experience and working condition? If not, any modification?</strong></td>
</tr>
<tr>
<td><strong>Can it be practiced with partially implemented? Does it make success?</strong></td>
<td><strong>Can it be practiced with partially implemented? Does it make success?</strong></td>
<td><strong>Can it be practiced with partially implemented? Does it make success?</strong></td>
</tr>
<tr>
<td><strong>Do you believe peer networking among the public sector can speed up the adoption process? Do you promote it?</strong></td>
<td><strong>Did you communicate with counterpart in implementation process? Does it make helpful?</strong></td>
<td><strong>Did you communicate with counterpart in implementation process? Does it make helpful?</strong></td>
</tr>
<tr>
<td>Question</td>
<td>Question</td>
<td>Question</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Do the head of finance in ministry, department has autonomy in adoption decision making with new accounting practice?</td>
<td>As a head of finance in province, do you have autonomy to accept decision-making? How you enjoy it in accepting new accounting innovation?</td>
<td>As a head of finance in province, do you have autonomy to accept decision-making? How you enjoy it in accepting new accounting innovation?</td>
</tr>
<tr>
<td>As a head of finance, did you provide positive contribution to government in developing new accounting practice? If so, how? If not, why?</td>
<td>What is the implementation weaknesses identified? What support received from government in implementation process?</td>
<td>What is the implementation weaknesses identified? What support received from government in implementation process?</td>
</tr>
<tr>
<td>What implementation weakness you identified at lower level of government organisations</td>
<td>Do you have any monitoring system in place to see how new practice is going well?</td>
<td>Do you have any monitoring system in place to see how new practice is going well?</td>
</tr>
</tbody>
</table>
Appendix E: Nvivo coding hierarchy

1). Diffusion of knowledge about accrual basis accounting

### By Provincial Government CFOs:

<table>
<thead>
<tr>
<th>Mode of communication</th>
<th>Individual preference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Awareness about SLPSAS</strong></td>
<td></td>
</tr>
<tr>
<td>Collaboration with SAD and PSASC</td>
<td>High</td>
</tr>
<tr>
<td>Become a member of PSASC</td>
<td>High</td>
</tr>
<tr>
<td>Attending international seminar and conference</td>
<td>High</td>
</tr>
<tr>
<td>Collaboration with other Provincial Government</td>
<td>High</td>
</tr>
<tr>
<td>Seminars organised by Treasury</td>
<td>High</td>
</tr>
<tr>
<td>Treasury publications such as circulars and web site</td>
<td>High</td>
</tr>
<tr>
<td><strong>Technical knowledge about accrual basis accounting</strong></td>
<td></td>
</tr>
<tr>
<td>Professional membership (CA, AAT) &amp; Publication</td>
<td>High</td>
</tr>
<tr>
<td>Attending professional development program by WB &amp; ADB</td>
<td>High</td>
</tr>
<tr>
<td>Networking with other Local Government</td>
<td>High</td>
</tr>
<tr>
<td>Undertake short course at SLIDA, ICASL or MILODA</td>
<td>High</td>
</tr>
<tr>
<td>Other workshop and training organised by Treasury</td>
<td>High</td>
</tr>
<tr>
<td>Through own research (internet)</td>
<td>High</td>
</tr>
</tbody>
</table>

### By Local Government accountants:

| **Awareness about SLPSAS**                                  |                       |
| Collaboration with officials in provincial treasury, and audit |                       |
| Seminars & conference organised by SLILG, ICASL and SLIDA    |                       |
| Other informal link such as personal connection             |                       |
| Government publication such as circulars and booklet        |                       |

| **Technical knowledge about accrual basis accounting**      |                       |
| Workshop organised by SLILG, APFASL and MILODA             |                       |
| Training organised by Provincial Treasury, audit department |                       |
| Networking with other Local Government                      |                       |
| Through professional membership (CA, AAT)                   |                       |
| Undertake short course at SLIDA, ICASL or MILODA            |                       |
| Through own research (internet)                             |                       |
2). Persuasion toward accrual basis accounting

Reasons for decision to adopt accrual basis accounting

- Cost & benefits of accrual basis accounting
- Influenced by higher authority (MOF, AG, MOLGPC)
- Recommended by promoters (ICASL, SLILG, WB, ADB)
- Simplicity in learning and practice
- Compatibility with current working practice
- Flexibility to adopt and practice
- Trial period given
- Visibility of results of other peers

Closest reason/s for decision to adopt accrual basis accounting recognised by Provincial Government CFO

Closest reason/s for decision to adopt accrual basis accounting recognised by Local Government accountants
3). Factors influenced on implementation of accrual basis accounting

<table>
<thead>
<tr>
<th>Cultural/People factors</th>
<th>Individual belief on factor influencing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational leadership</td>
<td>High</td>
</tr>
<tr>
<td>Commitment &amp; motivation for change</td>
<td>High</td>
</tr>
<tr>
<td>Communication between groups in diffusion process</td>
<td>High</td>
</tr>
<tr>
<td>Understanding the need for change</td>
<td>High</td>
</tr>
<tr>
<td>Adequate training</td>
<td>High</td>
</tr>
<tr>
<td>Support from lead users/peer support</td>
<td>High</td>
</tr>
<tr>
<td>Communication within the organisation</td>
<td>High</td>
</tr>
<tr>
<td>Size of organisation (number of assets/transaction)</td>
<td>High</td>
</tr>
<tr>
<td>Resistance to change</td>
<td>Low</td>
</tr>
<tr>
<td>Political leadership</td>
<td>Low</td>
</tr>
<tr>
<td>Distance and language barriers</td>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technical factors</th>
<th>Individual belief on factor influencing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset valuation issues</td>
<td>High</td>
</tr>
<tr>
<td>Underestimating changes</td>
<td>High</td>
</tr>
<tr>
<td>Computerised accounting system to support new accounting practice</td>
<td>High</td>
</tr>
<tr>
<td>Revenue recognition issues</td>
<td>High</td>
</tr>
<tr>
<td>Issues with other accounting adjustments</td>
<td>Low</td>
</tr>
<tr>
<td>Budgeting</td>
<td>Low</td>
</tr>
</tbody>
</table>
Appendix F: Survey instrument

School of Accounting
RMIT University, Melbourne, Australia
Survey Instrument

Diffusion of accrual basis accounting into the Local Government

We thank you for assisting us with this survey. All information provided in this questionnaire will be treated with strict confidentiality and no names of persons or organisations will be disclosed.

The questionnaire is organised in six sections. Most of the questions require your perception or belief on accrual basis accounting.

We thank you for your time.

Definitions:

**Diffusion and adoption of accrual basis accounting**: refers to the (voluntary and/or coercive) process by which your Local Government passes knowledge about accrual basis, forms an attitude towards the accrual basis, makes a decision either to adopt (or someone else made), and implement the accrual basis accounting and prepare accounts as prescribed by public sector standards.

Section One- Background information

Please answer the following questions:

1.1 Your current position is

1.2 Type of Local Government (please circle) : Municipal council Urban Council Pradeshiya Saba

1.3 Do you have an accounting education background: Yes No

If yes, how do you gain accounting knowledge (from degree, diploma, short course, or school)

1.4 Amount of working experience: In Public Sector (in years)

In Private Sector (in years)

1.5 Your age group:

☐ Below 35 ☐ 35 to 44 ☐ 45 to 54 ☐ 55 to 64 ☐ 65 or above
Section Two- Prior condition for accrual basis accounting

2.1 Which of the accounting technique and practice is considered more or least useful, innovation introduced within your Local Government? (Please tick each item according to your understanding)

<table>
<thead>
<tr>
<th>New accounting technique/practice</th>
<th>Most successful</th>
<th>Least successful</th>
<th>Not used</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cash flow statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Accrual basis balance sheet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Performance Planning Budgeting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Zero Based Budgeting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Cash Flow Statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Target Costing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Activity Based Costing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Functional Analysis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Key Performance Indicator</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Balance Scorecard</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Activity Based Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Any other, specify</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.2 What is the most closest reason/s to introduce accrual basis accounting standards within your Local Government (Please tick as many boxes as you think is appropriate)

<table>
<thead>
<tr>
<th>Reason/Reasons</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Pressure from Treasury and SAD</td>
<td></td>
</tr>
<tr>
<td>2 Pressure within the Local Government (Chairman, Secretary)</td>
<td></td>
</tr>
<tr>
<td>3 Pressure from Provincial treasury and auditors</td>
<td></td>
</tr>
<tr>
<td>4 Pressure from external agencies( Donors, Finance Commission)</td>
<td></td>
</tr>
<tr>
<td>5 Recommended by Local Government Commissioner</td>
<td></td>
</tr>
<tr>
<td>6 Recommended by Institute of Charted Accounts Sri Lanka</td>
<td></td>
</tr>
<tr>
<td>7 Recommended by Sri Lanka Institute of Local Governance</td>
<td></td>
</tr>
<tr>
<td>8 Improve decision making on financial information</td>
<td></td>
</tr>
<tr>
<td>9 Responding to an information request from your manager</td>
<td></td>
</tr>
<tr>
<td>10 Following the accounting practices of other Local Government</td>
<td></td>
</tr>
<tr>
<td>11 Identify limitation and weakness of cash basis reporting</td>
<td></td>
</tr>
<tr>
<td>12 New technique was Inherited from previous management</td>
<td></td>
</tr>
<tr>
<td>13 Any other, specify</td>
<td></td>
</tr>
</tbody>
</table>

233
Section Three- Diffusion of knowledge about accrual basis accounting

Please answer following questions in relation how to gain necessary information and knowledge about Sri Lanka Public Sector Accounting Standards.

3.1 Which of the following way(s) does government (Provincial or Central) assist you to gain necessary information, awareness and practical knowledge about accrual basis and public sector accounting standards?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government publication such as circulars, guidelines</td>
</tr>
<tr>
<td>2</td>
<td>Material published by other institution such as Chartered Institute, SLILG and World Bank</td>
</tr>
<tr>
<td>3</td>
<td>Seminars/conferences organised by Treasury</td>
</tr>
<tr>
<td>4</td>
<td>Workshop organised by SLILG and ICASL</td>
</tr>
<tr>
<td>5</td>
<td>Training provided On-Site</td>
</tr>
<tr>
<td>6</td>
<td>In-house training team</td>
</tr>
<tr>
<td>7</td>
<td>Discussion and meeting with Auditors and Provincial Treasury</td>
</tr>
<tr>
<td>8</td>
<td>Through professional membership such as Chartered, AAT, or CIMA</td>
</tr>
<tr>
<td>9</td>
<td>Networking with other Local Government officers</td>
</tr>
<tr>
<td>10</td>
<td>Internet and web</td>
</tr>
<tr>
<td>11</td>
<td>Any other, specify ..................................................................................</td>
</tr>
</tbody>
</table>

3.2 Which of the following way(s) do you prefer to maintain (keep up to date) your accounting knowledge and professional development in relation to new accounting practice?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government publication such as circulars, guidelines</td>
</tr>
<tr>
<td>2</td>
<td>Material published by other institution such as Chartered Institute, SLILG and World Bank</td>
</tr>
<tr>
<td>3</td>
<td>Seminars/conferences organised by Treasury</td>
</tr>
<tr>
<td>4</td>
<td>Workshop organised by SLILG and ICASL</td>
</tr>
<tr>
<td>5</td>
<td>Training provided On-Site</td>
</tr>
<tr>
<td>6</td>
<td>In-house training team</td>
</tr>
<tr>
<td>7</td>
<td>Discussion and meeting with Auditors and Provincial Treasury</td>
</tr>
<tr>
<td>8</td>
<td>Through professional membership such as Chartered, AAT, or CIMA</td>
</tr>
<tr>
<td>9</td>
<td>Networking with other Local Government officers</td>
</tr>
<tr>
<td>10</td>
<td>Internet and web</td>
</tr>
<tr>
<td>11</td>
<td>Any other, specify ..................................................................................</td>
</tr>
</tbody>
</table>
3.3 In most cases, which institution is developed new accounting techniques and practices for Local Government? (If more than one institution is involved, please tick all the institutions)

1. SAD and Central Treasury
2. Sri Lanka Institute of Local Governance and Ministry of LG
3. Finance Commission
4. Provincial Treasury and Local Government Department
5. Professional Accounting Association such as ICASL
6. Auditor General’s Department
7. In-house team
8. Any other, specify …………………………

3.4 What type of contribution and involvement, you as a head of accounts in your Local Government made in the development of accrual basis public sector accounting standards?

1. Actively involved with SAD at initial standard drafting process
2. Actively involved with ICASL at initial standard drafting process
3. Participate only awareness program at drafting process
4. Actively involved with Provincial Treasury and provide suggestions
5. Participate only awareness seminar conducted by Provincial Treasury
6. Very little involvement
7. No involvement at all
Section Four - Persuasion for the accrual basis accounting

4.1 To what extent do you agree with the following qualities of accrual basis public sector standards influencing on the adoption of accrual basis accounting reporting practice within your Local Government?

<table>
<thead>
<tr>
<th>Quality of accrual basis accounting</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrual basis accounting and standards are consistent with your experience, organisation culture, and current working condition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrual basis accounting is easy to understand, learn, communicate to others and practice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrual basis accounting provide more accurate and details financial information about your organisation compare to cash basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrual basis accounting provide more economic advantages to your organisations compare to cash basis (like: more funding opportunities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In the adoption and use of accrual basis accounting, are you given more flexibility to decide the adoption process (like one reporting practice at one time)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More opportunity to see the results of accrual basis reporting of other Local Government, give more confidence in adoption process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section Five- Decision and implementation of accrual basis accounting

5.1. What is the current reporting practice, followed by your Local Government and what reports are produced on accrual basis?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance sheet, Income statement and Cash flow statement are prepared on accrual basis</td>
</tr>
<tr>
<td>2</td>
<td>Only Cash flow and Income statement is prepared on accrual basis</td>
</tr>
<tr>
<td>3</td>
<td>Only Income statement is prepared on accrual basis</td>
</tr>
<tr>
<td>4</td>
<td>None of reporting is prepared on accrual basis</td>
</tr>
<tr>
<td>5</td>
<td>Other................</td>
</tr>
</tbody>
</table>

5.2 If your Local Government is prepared only Income statement and/or Cash Flow statement or none of reporting is prepared on accrual basis, when do you think your Local Government can be prepared all three reporting on accrual basis?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Within 1 to 2 years’ time (by 2017)</td>
</tr>
<tr>
<td>2</td>
<td>More than 2 years’ time</td>
</tr>
<tr>
<td>3</td>
<td>Not sure</td>
</tr>
</tbody>
</table>

5.3. How would you rate your understanding and knowledge about each of public sector accounting standards introduced by Government? (Please indicate your answer for each row)

<table>
<thead>
<tr>
<th>Sri Lanka Public Sector Accounting Standards</th>
<th>Very well</th>
<th>Well</th>
<th>Basic</th>
<th>Not clearly</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLPSAS 1- components of financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 2- preparing of Cash flow statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 3- accounting policies, changes in accounting estimates and errors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 4- accounting treatment for borrowing cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 6- adjustment for events after reporting date</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 7- treatment for property, plant &amp; Equipment (including asset valuation)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 8- recognition, measured and disclosure of contingent asset &amp; liability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLPSAS 9- accounting treatment for inventory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.4 For each of the organisations listed below, how would you assess your experience regarding their involvement and support in adoption and implementation process of accrual bases reporting practice within your Local Government? (Please indicate your answer for each row)

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Very Satisfied</th>
<th>Satisfied</th>
<th>Moderate</th>
<th>Not satisfied</th>
<th>No support at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Accounts Department (SAD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka Institute of Local Governance (SLILG)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka Institute of Development Administration (SLIDA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Government Department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provincial Council treasury</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance Commission</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor General Department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institute of Chartered Accounts Sri Lanka</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Local Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.5. To what extent do you agree with the following factors in inhibiting the adoption of full accrual accounting within your organisation? (Please indicate your answer for each row)

<table>
<thead>
<tr>
<th>Factors inhibiting implementation</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in performing asset valuation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Timing and recognition of tax revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underestimated the amount of change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer software system did not support the new accounting techniques</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of appropriately skilled accounting personnel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of proper written guidelines (eg: workbook, instruction)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor communication and coordination from National and Provincial Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No accountant or bookkeeper position assigned to implement the new accounting techniques</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work overload</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No one officially requested to prepare final accounts with SLPSAS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient support from local councillors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section Six - Confirmation of accrual basis accounting

6.1 What systems does your organisation have in place to monitor the performance of the new accounting and budgeting reporting system? (Please tick whatever appropriate, one or more can be ticked)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Auditor’s report and meeting</td>
</tr>
<tr>
<td>2</td>
<td>Regular meeting with Secretary and Chairman</td>
</tr>
<tr>
<td>3</td>
<td>State Accounts Department’s review</td>
</tr>
<tr>
<td>4</td>
<td>Councillors’ meeting</td>
</tr>
<tr>
<td>5</td>
<td>User feedback</td>
</tr>
<tr>
<td>6</td>
<td>Budget review</td>
</tr>
<tr>
<td>7</td>
<td>Benchmarking</td>
</tr>
<tr>
<td>8</td>
<td>Pilot studies</td>
</tr>
<tr>
<td>9</td>
<td>In-house team</td>
</tr>
<tr>
<td>10</td>
<td>No such system</td>
</tr>
<tr>
<td>11</td>
<td>Not known</td>
</tr>
</tbody>
</table>

6.2 Please provide your suggestion and recommendation on diffusion and implementation process of accrual basis standards or future accounting innovation?

…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………

Thank you for your participation.

Please return the questionnaire to the researcher in the self-addressed envelope.

If you would like a summary of the findings sent to you, please write your email address here

…………………………………………………………………………………………………………………………………………………………
Thusitha Dissanyake  
PhD Candidate  
School of Accounting  
RMIT University  
E: thusitha.dissan@rmit.edu.au