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CERTIFIED MANAGEMENT ACCOUNTANT

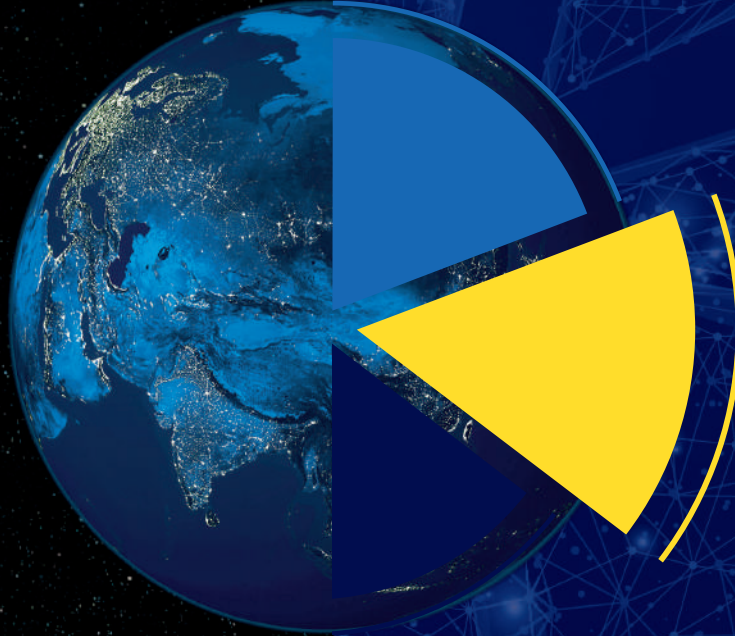
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*I thank every member of CMA
Sri Lanka for the great work you
do and for granting the
Fellowship of CMA which I am
proud of and will treasure //*

Mr. Alan Johnson

President of International Federation of Accountants (IFAC)

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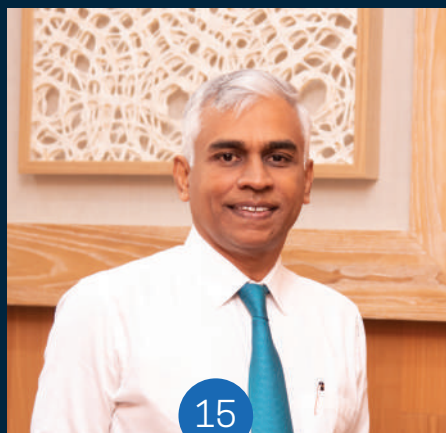
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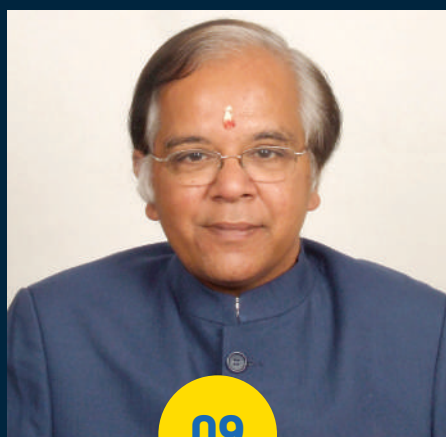
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Journal committee

Chairman - Mr.Puvendran Gajendra

Secretary - Ms.Sumudu Pagoda

Editorial Consultants - Prof.Roshan Ajward

- Ms.Darshini Watawala



I have pleasure in sending a message to the "Certified Management Accountant" Journal June 2022 covering a wide range of professional and business articles and interviews.

Marking another landmark in its journey in professional accounting education in Sri Lanka, we are proud that the Institute of Certified Management Accountants of Sri Lanka (CMA Sri Lanka) has obtained recognition for the Diploma in Accounting and Business Management course at NVQ level 6 - Higher National Diploma level equivalent status from the Tertiary and Vocational Education Commission (TVEC) in Sri Lanka. This will enable students to get a locally and foreign recognized middle level professional qualification "Certified Accounting & Business Manager" - CABM with both academic and practical experience.

President's Message

We are privileged to have the President of the International Federation of Accountants Mr Alan Johnson featured on the cover page of the current CMA Journal. His presence at the CMA National Management Accounting Conference 2021 and the CMA Excellence in Integrated Reporting Awards 2021 held in January 2022 to deliver the Key Note Addresses were of special significance to the accounting profession and made Sri Lanka proud. His address on "The profession's role in a sustainable economic recovery from COVID" is the key article in the journal. The award of the CMA Sri Lanka Fellow Membership with the title FCMA was warmly accepted by the president IFAC Mr Alan Johnson.

This was followed with many other outstanding interviews and articles covering the Managerial and Societal Costing Framework, costing and pricing in the energy sector, restructuring of state owned enterprises, transparency and accountability in the government and public sector which need to be swiftly implemented if we are to overcome the current economic crises causing many hardships to society.

My heartfelt gratitude is extended to all these eminent personalities for their contributions which will provide valuable reading material to our membership, corporate clients, business managers, academics and members of other professions.

The Institute of Certified Management Accountants of Sri Lanka celebrated its 22nd anniversary on 3rd June 2022 with the CMA Founder's Day Oration "The Changing Corporate Reporting Scene" delivered by Prof Mervyn E King Former Judge of the Supreme Court of South Africa and Emeritus Chairman International Integrated Reporting Council.

The support given by the patrons, governing council, advisory council, and the efficient services rendered by the management and staff has enabled CMA Sri Lanka to be successful by switching to digitized operations since the advent of the COVID 19 pandemic.

I wish to thank the Chairman, and Members of the Journal Committee, editorial committee and the Secretary of the committee Ms Sumudu Pagoda for their dedication and commitment to bringing out the journal to be released at this special event and to making it available in e - format on the CMA Sri Lanka website.

Wishing you all the best.

President

Prof. Lakshman R. Watawala



I am happy to share this message as the Journal committee chairman of the Certified Management Accountants of Sri Lanka which recently celebrated two decades of existence as the only National Management Accounting body of Sri Lanka. It has been at the forefront in developing the management accounting professionals in Sri Lanka.

CMA Sri Lanka has taken initiatives during this difficult times, especially supporting the SME's who are major creators of employment opportunities in the country and made several representations to the relevant authorities on behalf of different sectors. We hope these will be implemented within the coming months.

Chairman's Message

CMA Sri Lanka has provided opportunities for its members, and the leaders of different sectors, to share their valuable experience by providing articles to the journal for the public, in managing and overcoming the current environment.

CMA Sri Lanka conducts interesting seminars via zoom almost every week, free of charge to our members, students and the general public. In this backdrop, we are releasing our journal through the virtual platform created by the new normal situation due to COVID.

I take this opportunity to thank Prof. Lakshman R Watawala, founder President of CMA Sri Lanka for providing dynamic leadership during this pandemic period. We greatly appreciate the authors who took the initiative to submit valuable articles. Finally my sincere thanks goes to the Council members and most importantly the CEO and staff of CMA Sri Lanka. Without them this journal would have not been possible.

Puvendran Gajendra

FCMA, FCA, FMAAT, FCPM
Chairman
Journal Committee

THE PROFESSION'S ROLE IN A SUSTAINABLE ECONOMIC RECOVERY FROM COVID

Keynote address delivered by

Mr Alan Johnson President of International Federation of Accountants (IFAC) the Global Voice of the Accounting Profession at the CMA Sri Lanka National Management Accounting Conference 2021



The mission of the International Federation of Accountants (IFAC) is to serve the public interest by enhancing the relevance, reputation, and value of the profession across the world. IFAC represents more than three million professional accountants through our 180 member organizations across 135 jurisdictions.

IFAC represents as an advocate for the profession as its global voice by supporting and promoting the development, adoption, and implementation of high-quality international standards, and also, equipping the profession through our member bodies such as CMA Sri Lanka and all the professionals that they represent.

We can't do it alone without institutions such as CMA Sri Lanka. Together with the resources of our members and affiliates, we can make transformation happen. CMA Sri Lanka is a member of IFAC and the South Asian Federation of Accountants and the Confederation of Asian and Pacific Accountants, and these connections define our global profession.



And what is our role in a sustainable economic recovery from Covid-19?

“Sustainability” is often taken to mean green finance, strong corporate governance, and other foundations of equitable and lasting economic growth. Some think mostly of the need for public health measures against infectious diseases, while others think of climate action.

All these and more are at play today in discussing a sustainable future. Each one has a dynamic effect that affects the others.

The UN 2030 Agenda for Sustainable Development Goals (SDGs) is comprehensive and eloquent and says SDGs are indivisible and balance economic, social, and

environmental dimensions. The climate crisis and digitalization are simultaneously hastening, and their effects influence each other like Covid-19 and other health emergencies.

As a profession, let's discuss the demand for

- sustainability information.
- retooling and reskilling the profession; and
- re-orienting to an equitable and sustainable society.

Sustainability information:

Stakeholders expect consistent, comparable, and reliable sustainability information beyond financial statements to understand economic, social, and environmental impacts, accompanying traditional financial

impacts. We can assist to meet this demand for information as professional accountants, board members, external stakeholders, and public practitioners.

In a recently published report by IFAC on the sustainability assurance market, some problems were identified such as only half of the companies publish sustainability information, and among those who do obtain assurance, it is provided by consultants outside the accountancy profession, which might create an “expectation gap” for the profession.

We advocate a global approach to sustainability standards to the risk of regulatory fragmentation. Accordingly, we support the creation of an international sustainability standards board alongside IASB under IFRS Foundation.

Retrofitting and reskilling the profession:

In the pandemic, we were obliged to do the same work *differently* under health guidance. However, we suggest doing different work entirely. The accountancy profession will be multidisciplinary with technical and advisory roles, with a need to become conversant with climate and IT skills as economic growth is sustainable.

Accountants must step into advisory roles for SMEs who lack resources to work in complex business settings, with sustainability reporting becoming mandatory, by using digital tools and competencies.

Professional Accountancy Organisations (PAOs) make a major contribution to preparing accountants for a sustainable and prosperous future. In this respect, CMA Sri Lanka stands at the forefront. These PAOs must engage in educating and training to reflect emerging demands of sustainable development.

Re-orienting towards a more equitable and sustainable society:

The role of the professional accountant relates to the resilience of society through sustainable value creation, trust and fairness in institutions, and a healthy natural environment.

Consider the importance of start-ups, micro-enterprises, and SMEs. They are and will remain the backbone of the global economy: they are responsible for 80 to 90 percent of job creation around the world. They are and have been critical to the successful development of the

Sri Lankan economy over the past two decades.

However, these businesses are more vulnerable than large firms to disruption, as they tend to have much tighter margins and less access to financing. This is an issue not only for these businesses and their millions of employees but also for large firms as they depend on smaller firms at every point in their supply chains.

Professional accountants have the technical skills and mindset to step in as trusted advisors to these firms. With the right retooling and reskilling, the profession can build sustainability into the foundation of the global economy in the process.

CMA Sri Lanka members working in business and the public sector are in unique positions to help shape corporate and public policies, channel resources behind investments that deliver long-term sustainable value, set sustainable goals and targets, and measure performance along the journey. This is at the core of the management accounting profession's role; an even more exciting role given today's challenges.

I would like to recognize your leadership in establishing the annual CMA Excellence in Integrated Reporting Awards in 2014 and to congratulate you and all of the winners of these important awards.

Public investment is also a means for more sustainable economic growth. The pandemic caused severe economic setbacks that prompted increased public investments to serve the public. The profession's continued dedication to integrity in public financial management will be essential.

We cannot ignore the devastating effects of climate change. It has severely affected Sri Lanka as well, particularly half the population living in coastal areas due to sea erosion. Action is needed to face these on a global scale. Sustainable growth should not be at the cost of sustainable destruction. The three themes above are deeply connected to each other and for sustainable economic recovery.

Despite the uncertainties of the future, our profession's commitment to ethics will not

and must not change as the International Code of Ethics for Professional Accountants underpins everything we do, which gives us the right to defend issues relevant to our profession, economy, technology, sustainability, and society at large.

Finally, not only is there an important need for the profession to lead on sustainability to fulfill the public interest mandate, but there is also an opportunity to help those in the private and public sectors make the tough choices that are inevitably facing every country as a result of the pandemic. Let us use this opportunity to do what is right for the long-term benefit of all. The profession can create a better, more resilient world with stronger economies and fairer societies by doing so.

It is a privilege to be IFAC President, especially now. This is a time of many challenges but also many opportunities.

CMA Sri Lanka is not only an IFAC member but also a member of the South Asian Federation of Accountants and the Confederation of Asian and Pacific Accountants. These connections are crucial to the profession in Sri Lanka, in the region, and around the world. Indeed, these connections define our global profession.

I wish to acknowledge the significant contribution of your founding and current President Prof. Lakshman Watawala who has done so much for the profession in Sri Lanka and across Asia, having served as President of the Sri Lankan Institute of Chartered Accountants, the South Asian Federation of Accountants, the Organization of Professional Accountants of Sri Lanka and the founder and past President of the Association of Accounting Technicians of Sri Lanka. And of course, his numerous corporate and public sector leadership positions.

And may I also congratulate your Vice President, Hennayaka Bandara on his appointment as the President of the South Asia Federation of Accountants for 2022 and wish him much success during his presidential term.

I thank every member of CMA Sri Lanka for the great work you do and for granting the Fellowship of CMA which I am proud of and will treasure.

Mr Raman is a commerce graduate from D.G.Vaishnav College of Chennai and he is a Fellow Member of ICWAI, an Associate Member of ICAI, and a Fellow Member of ICMA of Sri Lanka, and in May 2011 was conferred the membership of CPA Australia. He is a member of the Technical Advisory Board of ICMA of Sri Lanka.

Further, he was the Chairman of the Southern India Regional Council of ICWAI in 1993 and a member of the central council of ICWAI in 1996-99 and 2007-11 terms. He was nominated to be the Vice President of SAFA in 2010 and became its President in 2011. He has also been nominated to the Professional Accountants in Business Committee of IFAC for the term 2010-12.

Further, he is an internationally acclaimed expert on various nuances of cost management principles including Activity Based Costing / Management, Strategic cost management, Value chain analysis, and Target costing has the unparalleled distinction of scripting and introducing the whole concept of Total Cost Management in a structured format to Indian industry since 1996.

He is one of the 12 chartered accountants whose life and times were chronicled for their outstanding contribution to their chosen field and published in a book called “flying high’ by the society of auditors Chennai in Dec 2019



Managerial and Societal Costing Framework

Cost information is a vital enabler to formulate and drive strategy at the entity and national level, and a Management Accountant has a crucial role in providing this information accurately to the relevant decision-makers and policymakers.

These cost information requirements have become multi-faceted and complex, with the evolution of the corporate world. Furthermore, the diverse and sometimes even conflicting objectives of different stakeholders of the economy pose a significant challenge in developing a common cost accounting framework.

In this series of articles, we aim to talk to academic/corporate professionals who

have done the research and initiated a social dialog and ideology on formulating a Managerial and Societal Costing Framework to meet these challenges.

Mr A N Raman is such a well-known professional figure in the South Asian finance industry, and he took time out of his busy schedule to shed more insight into the principles, concepts, and methodologies prescribed in the Managerial and Societal Costing Framework that was launched by Cost and Management Accounting Standards Board.

1. Cost information has always been the key factor that determines the price for any good or service in the market. Today, pricing is only one part of the myriad of expectations of the cost accounting function. How do you view this expansion of expectations of the costing function and what are the factors you think to drive this increased reliance on cost information?

This question connects directly with the theme, that is, the role of cost and management in value creation. To understand that we need to go back to how the cost and management accounting role evolved in the earlier decades and what is happening now. It is very important for me to refer to Dr Robert Kaplan who is the guru of cost and management accounting globally. He has done excellent documentation of how management accounting subject evolved and where it is orbiting today. So, if you go by this, the cost and management accounting domain got connected with the business models one hundred years back, where the role was mainly associated with the profit-taking of the business enterprises. So, there was a market need and hence, the business model calculated the cost added a margin, and fixed the price at which the consumers bought. Business models are now witnessing how sustainable strategies and integrated reporting are evolving. Contemporary enterprises cannot exist for profitability alone. There are multiple stakeholders. Businesses need to identify who are all these stakeholders. For example, the employers are the key stakeholders of the enterprises. The customers are also very important stakeholders and without them, the turnover doesn't come. The government may be a key stakeholder because you may be using public resources. Suppliers may be key stakeholders because of the value chain thinking and, of course, the society. So, when there are multiple



Under the guidance of Professor Lakshman Watawala, CMA Sri Lanka has embarked on increasing the competency of cost and management accounting in Sri Lanka and they have issued a framework.



stakeholders, what happens is a need for taking decisions that balance and take care of all. So, while the returns for the owner of the business is profit, returns for all the other stakeholders are not profit. It is value. Hence, value creation, along with profitability, has become the central theme of modern enterprises. The cost and management accountant will have to ensure that the decision-making process, whether it is at a strategic level or at an operational level, none of these stakeholders are impacted negatively. So, the modern cost and management accountant has expanded its role from the determination of the cost to value creation for various stakeholders.

2. In developing this Managerial and Societal Costing Framework what were the key focus areas identified by the Cost and Management Accounting Standard Bearers?

This framework has got two parts. One part addresses the managerial needs of sustainable business enterprises and another part addresses the needs of a market regulator. It can be a government, or it can be a regulator created by the government as a part of its arm.

As far as the managerial costing framework part is concerned, the key focus is on how to increase the excellence of business enterprises in taking decisions in balancing the value creation and profitability. So, what concepts need to be applied? What managerial tools need to be brought in? How should the business deploy these tools for value creation on an integrated approach? That is, in running the business enterprises which have an integrated approach to balancing the needs of all the stakeholders. This is precisely the focus of the managerial costing part. In this part, we are speaking of concepts and tools which will help the CMA in identifying the stakeholders and enable the management in identifying key resource areas and performance indicators to monitor and manage value creation. Use the required tools in measuring value as well as costs and support the management with the required information thereby embedding integrated thinking in running the business enterprise.

Now I come to the second part viz, the societal costing. When compared to the already advanced global economies, economies, particularly in the South Asian region, a large segment of the society exists whose income levels need to be improved and, at the same time, they also need affordable living. While the government should ensure sustainable business enterprises, they also have to ensure the affordability of essential goods and services for the common man in daily life. The pricing of that happens on what is called a Cost-Plus Basis. So, if you allow here a free marketplace, then the evils of a free-market approach may be harmful to a common citizen.

A typical example is electricity. If you allow complete freedom of enterprise there is a possibility of the dangers of the free-market enterprise in the form of not-so-affordable pricing for the customer. Here what does a societal costing do? Societal costing creates the framework for ensuring pricing of the output properly on a cost basis added with a reasonable margin.

By adopting of cost accounting standards under societal costing by these enterprises producing the goods or services for the common man, it will ensure a reliable cost-plus pricing approach.



The Parliaments of all these South Asian countries have seen a need for creating a management accounting profession.”

3. What are the key concepts and principles that were identified as the foundation of the Managerial Costing Framework?

Your question is specifically focused on managerial costing. Here, you have rolled two aspects into one question, i.e., the principles as well as the concepts. If you see the sequence in the framework, then you would reverse the order to principles and concepts. Principles govern human or organizational behaviour for a long period of time and not short term in the application. They are as below:

- ▶ Causality
- ▶ Traceability
- ▶ Relevance
- ▶ Analogous thinking
- ▶ Impactful thinking, and
- ▶ Sustainability

I can explain, for example, the last principle – sustainability.

Sustainability, as a principle, should influence the managerial behaviour of the business enterprises with sustainable business strategy. For example, when I make a decision in the context of my suppliers, I will always ensure that I do not squeeze the supplier in such a way that profitability and livelihood crash, whereas my business flourishes. I will need a managerial costing model which will understand what the cost of production of my supplier is. What is the reasonable margin he should get in this business?

So, compute a reasonable price for the supplier and also check and balance whether this reasonable price is also ensuring a reasonable cost for the buyer.

If I am not governed by this sustainability principle as a business enterprise, what would I do? I would always look at an opportunity of reducing the price of my vendor without thinking about whether he is going to sustain it. This is a very big departure between our sustainability-driven managerial costing and conventional costing.

So, like this, the remaining five principles like Causality, Traceability, Relevance, analogous thinking, and Impactful thinking, have been put as an underlying platform of this business behaviour in the managerial costing part.

Under these principles, then come to the concepts. A concept is an idea that can be tested for some period, and it can be reversed if it is not good in terms of a principle. If some concept is not helping in enabling my principle, then I can modify my concept. In this way, there are several concepts that are being embedded into the managerial costing framework, like:

- ▶ Value chain thinking and value creation.
- ▶ Understanding what is called as a value proposition.
- ▶ Resources and managerial objectives.
- ▶ Process orientation thinking.
- ▶ Consistency of information.
- ▶ Integrated data orientation.

Out of this, I will explain only one for the sake of brevity.

Value chain thinking and value creation: What is this concept and how does it align with the principle? It aligns with the principle of sustainability, which I just explained to you. A typical value chain thinking is a concept in which the managerial costing framework of an organization doesn't look at its own cost structure. This is where there is a big difference between financial accounting and management accounting. For example, for a financial accountant, his own entity is the boundary. He need not think beyond his entity. Let's say, there's a company called A Ltd. Its boundary can be the boundary of the financial

accountant, whereas a management accountant will have to think beyond that boundary. Consider a supplier B who is doing business with a company called A Ltd. In the value chain thinking, I also need to think about the welfare of B, who is doing business with A Ltd. So, only if I have this concept of thinking about that supplier, then I am adopting what is called sustainability principle. This value chain thinking and value creation as a concept under the managerial costing make a typical management accountant map the value chain in which his organization is functioning. An Ltd may have an inbound value chain as well as an outbound value chain. An inbound value chain consists of my suppliers and suppliers of my suppliers, the raw material suppliers, and so on and so forth. Whereas, an outbound value chain consists of my distributors, my dealers, and my customers. So, the distributors or dealers are not a part of A Ltd. They are outside the A Ltd boundary. The financial accountant would not bother about the financial results of a distributor or a dealer. But a typical management accountant needs to understand, in terms of the value chain concept, what creates the welfare of my distributor and my dealer etc. Without deploying the value chain concept, you can never practice the principle of sustainability. This is how clarity of these six concepts has been envisaged under this managerial costing framework.

4. In view of the fragmented nature of the diverse stakeholder objectives of today's socio/economic environment, how and why does CMASB think such a managerial costing framework can be made acceptable to all stakeholders?

The root of this question comes from what is called 'integrated thinking and value creation. Today, the management accountant should align himself more towards what is called as 'value creation of a typical sustainable business. Integrated thinking can be implemented in an organization only if it understands all its stakeholders. All stakeholders need to be mapped. What creates value for all



stakeholders needs to be documented and put as a part of the integrated thinking. This is important because when an organization gets into the decision-making process, it should have the required tools which will balance the needs of the various stakeholders.

I will give an example by considering the customer as an important stakeholder and how I align my value creation process inside the organization with that, and also play a convincing role in taking all stakeholders on board. When I have to compete in the marketplace for a market share, and at the same time, also create profitability for my organization, it is very important that I need to satisfy the customers first. Without that everything would fall flat. Therefore, it is very important to start my process and understand what creates value for a customer and at what price.

I need to understand what the customer wants in terms of his value proposition and at what price he is willing to buy from me. I need to be competitive in terms of pricing. I also need to satisfy his value expectation. So, how does management accounting come here? Management accounting would now deploy a very important managerial costing tool called target costing. What does this target costing do? The customer insights gathering process happens constantly in the marketplace to understand what the price expectation of the customer is and for value proposition.

Once my value proposition from the customer is clear, and I also get the picture of what price he would accept, then what I do is, I set my profit in that. Let us say Rs.100 is the price of a product, and this company wants a profit of Rs.10. So,

Rs.90 is the target cost. So, this Rs.90 as a target cost given by the customer should be spread across the value chain. Out of this Rs.90, something has to come for the employee in the form of an employee cost. I have to give something in the form of return to the society in the form of spending on the environment. I also need to spend out of this Rs.90 on the material cost to my vendors. So, I need to take my vendors also on board telling them, 'Look, the customer would be willing to pay only a price of Rs.100 and the target cost is Rs.90. Out of Rs.90, we can afford a cost of Rs 60 for materials. So, our target material cost is only Rs.60 or your target price is only Rs.60. So, you need to manage your enterprise of supplying the incoming material to me at a price of Rs.60.

This is how the sort of balancing takes place across all stakeholders.



For Sri Lanka, there must be a secretary-level appointment in the Finance Ministry, who functions as the Chief Cost and Management Accountant Officer to the Government. In India, you will find under the Finance Ministry, a designated authority called the Chief Cost and Management Accountant Officer who is at the level of a Ministry Secretary.



5. What are the additional concepts and principles that have been included to make the Managerial costing framework relevant to other societal stakeholder needs?

This particular question speaks of the additional concepts and principles that are very important in the managerial costing framework and not relevant for societal costing. For example, if you could consider societal costing, it will start within an entity itself. Within an entity, what is the cost of producing electricity? Or, within a hospital, what is the cost of performing an open-heart surgery? Or within a bakery, what is the cost of producing bread? Or within a tea garden, what is the cost of growing and producing green tea leaves? This is how, in financial accounting, you

work within the boundary of the entity to measure the financial figures. Even at a societal cost, I don't go beyond the boundary. I would like to pick up the raw material cost, the labour cost, the power cost, and all the elements of cost incurred within the financial accounting and report on its profit and loss account. Only that will be allowed as what is called an allowable cost in working out the cost of making a product. Whereas, in the case of managerial costing, the starting point itself is differentiated. It is not enough if I would bother only about my entity-specific cost. In managerial costing, I need to understand the cost structure of my vendor. I need to understand the cost structure of my distributor or a dealer.

These additional concepts help a typical management accountant to be of very high value in what is called integrated thinking in the organization.

6. Knowledge and ability to use CMA tools is a prerequisite for any Accountant, and all successful economies and corporations make a significant investment in the implementation of these tools. What are the improvements CMASB identified as required for these existing corporate costing structures?

This is the major challenge as far as Cost and Management Standard Boards are concerned. This is what is called a competency-building objective in Sri Lanka of the managerial costing framework. Not only on managerial costing framework but also on societal costing framework. But now, in this case, since you have spoken more on corporations let me touch more on the managerial costing part. It is quite possible that the Sri Lankan business has not achieved that much maturity in understanding the distinction between typical financial accounting and managerial costing. In all the answers to your previous questions, I have repeatedly driven home a point that a typical management accountant is different in a business enterprise and

has to perform the role of enabling a very sound decision-making process in running the organization on sustainable lines. Towards this, management accounting has to evolve in the Sri Lankan economy, in the regulated sector as well as in the business. It is very important that we give this message first. We need to collaborate with business associations. That could be a confederation of industries of Sri Lankan business or that can be industry specific. We need to identify major partners with whom our Certified Management Accountants of Sri Lanka can work. First of all, commencing from the top management level, drive this message very strongly that the management accounting is significantly different from the financial accounting of an organization.

We need to do a lot of awareness creation and also drive home a message that there has to be a constant journey towards improving the excellence in managerial costing application in these enterprises. As a result of this, the student community that passes out from our institute is fully trained and equipped in the managerial costing area. They would exactly fit in with the needs of the evolving Sri Lankan enterprises and integrated thinking and perform the role of a good management accountant. This is how we need to set the path and a significant amount of investment will have to take place.

7. In contrast to the corporate world, state institute decision-making processes are not built to incorporate cost information. In this context what changes do you think are required to these structures in order to benefit from the prescribed Managerial and Societal Costing Framework?

There is a need to look at other South Asian economies like Pakistan, India, and Bangladesh and compare Sri Lanka with them. The Parliaments of all these countries has seen a need for creating a management accounting profession. That is why you find that the profession

has been created by an Act of Parliament. Having done this, what is the next level?

First of all, the Parliament has acknowledged the need for Cost and Management Accountants. Government, which is coming under parliamentary governance, will now have to create a structure that makes use of its own product. I would like to take the example of the other economies of South Asia. In India, you will find under the Finance Ministry, a designated authority called the Chief Cost and Management Accountant Officer who is at the level of a Ministry Secretary.

For Sri Lanka also, there must be a secretary-level appointment in the Finance Ministry, who functions as the Chief Cost and Management Accountant Officer to the Government. This particular person, coming as part of the structure of the Sri Lankan Government, will have to ensure that in all those enterprises, in the business of providing the affordable goods and services to the common man adoption of the cost accounting standards be issued by CMA Sri Lanka is made mandatory.

Under the societal costing framework, CMA Sri Lanka is going to issue the cost accounting standards. This chief costing officer in the government of Sri Lanka will have to mandatorily ensure that all the enterprises which are producing affordable goods or services to the Sri Lankan society maintain the cost accounting information in accordance with the cost accounting standards issued by CMA Sri Lanka.

The result of this would be, for example, let us say, there are six entities producing

electricity in Sri Lanka and supplying it to the Ceylon Electricity Board. These enterprises will have to maintain cost accounting information and come up with the cost of producing one unit of megawatt power. Information on the cost of production will be as per the standards issued by CMA Sri Lanka.

This chief cost accounts officer would regularly inspect and scrutinize the cost accounting information for some time, let's say for a period of one or two years to bring about uniformity. As a result, what will happen is, in less than two or three years, we will be getting reliable cost information for making very important decisions. For example, the Sri Lankan government would now like to take the decision of making subsidies, say 100% or 90% for all open-heart surgeries taking place throughout Sri Lanka. So far, they may not have had cost information, but now, this chief officer of the government of Sri Lanka would ensure cost accounting standards. We can answer questions such as what is the standard cost of performing an open-heart surgery? If have to target, let us say, 100,000 open-heart surgeries to be supported by the Sri Lankan government for one or two years, I would know precisely what is the quantum of the financial subsidy which has to be given, even if I have to give 100%. This will improve my decision-making process because the financial impact of very important decisions regarding affordable goods and services to society will be on sound information. I will very clearly know what is going to the financial outlay of the government because the cost information would have been made very reliable by the chief reporting authority within the government of Sri Lanka.



Mahendra Jayasekera is the Managing Director of Lanka Walltiles PLC, Lanka Tiles PLC, Lanka Ceramics PLC, Swisstek (Ceylon) PLC, and Swisstek Aluminium Limited. He is the Chairman of the Sri Lanka Cost and Management Accounting Standards Board. And he has an honours degree in Business Administration from the University of Sri Jayawardenapura and is a fellow member of the Institute of Chartered Accountants of Sri Lanka. Further, he holds a Post Graduate Diploma in Buddhist Studies (Distinction Pass) from the Post Graduate Institute of Pali and Buddhist Studies, University of Kelaniya. He has just completed a Master of Arts in Buddhist Studies from the Post Graduate Institute of Pali and Buddhist Studies, University of Kelaniya, and awaiting results. He has served as both executive and non-executive director of many other listed and unlisted companies. Currently, he is the President of Colombo Young Men's Buddhist Association.

Importance of Managerial accounting standards and practices for corporate planning and decision making

CMA Sri Lanka as part of its continued efforts to create opportunities not only to survive but to thrive in an ever-increasingly challenging and competitive global economy launched the Cost and Management Accounting standards BOARD (CMASB) in 2021.

In this article, we interviewed Mr. J A P M Jayasekera - Chairman CMASB and Managing Director at Lanka Tiles, to gain more insight into the importance of establishing sound managerial accounting standards and practices for corporate planning and decision making.

The powers in charge of policy-making do not seem to understand the basics of monetary and fiscal policy.

1. What skills and experiences do you think helped you to differentiate yourself from the other professionals when navigating your career to be a Managing Director of four leading listed companies in Sri Lanka?

My educational background in finance certainly laid the foundation for a good career path, especially after my articleship at KPMG. Thereafter, my career began in a stock brokerage firm where I gathered experience in capital markets. I worked my way up the ladder to become one of the youngest-serving Managing Directors to manage four listed companies.

I achieved this mainly due to my understanding of business principles and practices locally as well as globally. Developing a practical and timely decision-making competency as a leader is also very important, especially when having to find solutions to daily problems that are internally as well as externally created.

As a Managing Director, I place a very high value on my workforce and rely on their competencies and capabilities to achieve the set goals and objectives. Most importantly, I have given them the autonomy to make decisions with accountability. This comes with the trust I have in their knowledge and dedication to work.

We, as leaders, are looked upon, especially during difficult times to inspire, motivate and provide hope and positivity. This ensures we become the force that affects change. And we have to inspire change in the right direction throughout the entire organization during the peaks and slumps of our business cycles.

If anyone is looking to lead a company, the primary value is trustworthiness. You cannot do anything without trust. Trust the board, the shareholders, and most importantly, the employees and the trust

they have in you is the key to being a good leader.

2. In today's context, what are the key priorities and challenges faced by Sri Lankan manufacturers and exporters in competing with other international brands in the global market?

Firstly, our foreign exchange instability. The powers in charge of policy-making do not seem to understand the basics of monetary and fiscal policy. The excess supply of the Lankan rupee in the local market causes high inflation, leading to a high cost of production, and thereby making the Sri Lankan manufacturers unable to compete in the global market with countries such as China, India, Bangladesh, and Vietnam.

Secondly, the unpredictable and inconsistent decisions and policies made by the Government led to the economic crisis we are currently facing. This is causing a lack of confidence in our country in the global market. Export customers become anxious about business and supply continuity due to the economic crisis. New customers do not want to take the risk of dealing with an unstable country.

The uncontrollable price increases in freight and logistics are worrying. This is affecting our export market because, if logistics fail, we fail.

The lack of raw material and energy security will eventually lead to food insecurity. We will reach a point in time where meeting our basic needs would be a challenge. Currently, the shortage of energy and raw material is causing a stoppage in production, and companies are finding it difficult to plan and budget for the future due to the volatile market conditions. This will lead to business closures and unemployment along with increasing levels of poverty.

Many management leaders can attest to the fact that we prioritize and our focus shifts from one project to another based on the level of importance, the need at that time or the strategies we decide to focus on during that period to ultimately achieve our end objectives. Currently, what we have to do is damage control, because our economy is collapsing on all fronts; we are fighting fires created by a government with weak political and economic leadership.

3. As a corporate leader of a listed company with the highest commitment to finance governance, what are the inadequacies you see in the Generally Accepted Accounting Practices of the country in supporting the strategy formulation/implementation and decision-making process?

Before we speak of GAAP, I must touch on the Government and the public sector's scant regard for transparency, financial discipline, and sound financial advice. Even the lack of respect for science and reason in strategy formulation and implementation is shocking.

The inadequacies of GAAP are that it is one-dimensional and not holistic. For example, when we price products, we shouldn't only consider the cost. We also need to consider factors such as product category and market conditions when considering the price. Pricing of essential goods is different from pricing of luxury goods. I believe pricing is a totally different art.

A good businessman would be able to understand the basic principles of generally accepted costing standards to properly price his products. This will facilitate fixing proper margins for the product, growth, and long-term sustainability of the business.

Lack of knowledge in these areas has resulted in most small and medium businesses being loss-making and unsustainable.

We need to increase the awareness of GAAP and simplify its application. Existing standards are too complicated for a non-financial person/businessman to understand.

The excess supply of the Lankan rupee in the local market causes high inflation, leading to a high cost of production, and thereby making the Sri Lankan manufacturers unable to compete in the global market with other countries.

4. What is the Managerial costing/ planning tools and information systems that you find more useful in meeting this purpose in the current VUCA market dynamics?

Target Costing is a good management and planning tool to be used where prices are determined by market conditions. It focuses on cost reduction and effective cost management strategies. All functions in the organization from design, sourcing, manufacturing, and marketing are about achieving target costs in order to formulate the best-selling price.

Value Chain Analysis is vital in the current VUCA market. The company needs to identify its activities that add value to its final output and analyze these primary and secondary activities to reduce cost and increase product or service differentiation.

Target Costing is a good management and planning tool to be used where prices are determined by market conditions. It focuses on cost reduction and effective cost management strategies.

Social costing is the total cost to society in the consumption of resources, goods, and services. This helps and benefits all except a selected few.

In countries such as Sri Lanka, where manufacturers are trying to compete in the global export market, we know that manufacturers avoid allocating the overheads to the export pricing, especially if they have a domestic market. This is in order to remain competitive. We can do this through Activity-Based Costing.

Sri Lanka is paying a heavy price for not letting the people understand the real price of state-produced goods and services consumed by the people. For over 40 years, societal costing has been ignored and people have been given goods and services at subsidized prices at the expense of the public. These costs have

included a fair number of inefficiencies, corruption, and misuse of resources. The use of managerial and societal costing tools will identify and later eliminate these mentioned costs.

5) Given Sri Lanka's seriousness toward a controlled economy, the bulk of the country's production is managed by the public sector. As we know, there is a clear lack of investment in the implementation of Managerial Accounting Standards and Practices by these state-run enterprises. How do you think such an investment can help improve the market dynamics and the national competitiveness and what is the incentive for the political/ state apparatus of the country to embrace such a change?

If the public sector had implemented the Managerial and Societal Cost Accounting Standards and Practices, it would not be facing the crisis it is in today, especially where the power and energy sector is concerned. Transparency in costing is key to all this. The public sector can financially justify its policies and investments if it implements Managerial Accounting Standards and Practices. The general public needs to be aware of the pricing, costs, profits, and production of these companies managed by the State.

The Government will benefit from such practices too. It will be able to justify its costs, policies, and investments and, most importantly, show the general public the hidden costs which is the social cost incurred but not totally recovered from the consumer, such as the cost of pollution or erosion due to excavation of natural resources needed for production. The justification of costs and pricing will help gather support in decision-making on particular investments needed. Transparency in costing helps identify and eliminate waste, which would in turn make us provide goods and services at competitive rates to the consumers who in turn provide their goods and services at competitive rates due to their lower cost of production. Then we have lower inflationary figures, and our products become internationally competitive as well.

6) What is the CMASB's vision or role in establishing sound managerial accounting standards and practices for the country and how can the financial professionals or the public be a part of these activities?

Managerial and societal costing ensures people see the full cost and only then are they able to understand what value-adding is and eliminate the non-value adding costs. People need to be educated on the fact that we need to pay an economic price for the goods and services we consume. One of the issues the governments that are trapped in continuous budget deficits face is that they try to provide goods and services free of charge or at heavily subsidized prices, ignoring long-term economic realities. This is a heavy burden on any economy. I am sure that these practices will be reviewed by all concerned only if they fully realize the cost incurred in the production of these goods and services. However, this is not to say that all social safety nets be removed in the name of cost standards.

Not all expenditures incurred may be relevant, but there can also be costs that are incurred and not considered in costing goods and services such as external costs. These need to be captured accurately. Proper cost records will review costs that do not add value. Only if we eliminate non-value-adding costs, we can expect people to pay the right price for the product or service.

People need to be educated on the fact that we need to pay an economic price for what we consume. When the economy is under stress, it tends to create inflationary pressure. In order to justify these price increases, suppliers (public or private) should maintain proper cost records. Only if the costs are proper will it add pressure on the management to control costs and minimize or even eliminate waste.

The CMASB's vision is to ensure uniformity in identifying and treating costs across all sectors, especially the Government sector to use managerial accounting standards and practices. This initiative will allow producers of goods and services to compare and contrast the extent of value addition they achieve.

If the public sector had implemented the Managerial and Societal Cost Accounting Standards and Practices, it would not be facing the crisis it is in today, especially where the power and energy sector is concerned.

Transparency in costing helps identify and eliminate waste, which would in turn make us provide goods and services at competitive rates to the consumers who in turn provide their goods and services at competitive rates due to their lower cost of production.

We have to formulate a framework, guidelines, and standards. Thereafter, get legal and regulatory approvals for it. After that, we will have to review, revise, and update these standards. The financial professionals and the public need to be a part of these activities by

- ▶ Reading them and responding with questions and suggestions.
- ▶ Writing to CMASB on how to better the content and presentation.
- ▶ Promulgation to other users and students.
- ▶ Using them in their respective industries.

Finally, I believe all stakeholders will support the formulation and implementation of these standards and that should create a new culture in how people look at the real price of goods and services produced by the State.

Mr. Kumarasinghe was appointed as the Director-General of the Public Utilities Commission of Sri Lanka (PUCSL) in 2011 and has served on the PUCSL since 2002. He brings to bear many years of regulatory and management experience; within the PUCSL and Private Sector. Mr. Kumarasinghe was actively involved in developing the regulatory frameworks for the Sri Lanka infrastructure industries during the last decade. He is a Director, Board Member of the Sri Lanka Sustainable Energy Authority and Condominium Management Authority of Sri Lanka. He holds a degree from the University of Moratuwa, Sri Lanka specializing in Electrical Engineering, Masters degree in Engineering (M.E.) from the University of New South Wales, Australia in Electricity Industry Regulation and Restructuring and a Master's Degree in Business Administration (MBA) from the University of Colombo.



Importance of Cost and Management Accounting standards, monitoring, and reporting to establish accountability

In the wake of the present energy crisis and global fuel prices at unprecedented high levels, the Public Utilities Commission of Sri Lanka (PUCSL) is one of the key national entities that has come under greater public scrutiny. The Public Utilities Commission of Sri Lanka (PUCSL) was established under The Public Utilities Commission of Sri Lanka Act No. 35 of 2002 and is powered by the Sri Lanka Electricity Act No. 20 of 2009, to regulate the economy, technology, and safety of the electricity industry of the country.

As part of our series of articles on the state of cost and management accounting standards deployment within the public sector, we had the opportunity to talk to the Director-General of PUSL; Mr. Damitha Kumarasinghe.

In our discussion with him, we gave priority to understanding the Importance of cost and management accounting standards to the regulatory function and the achievement of the Sustainable Development goals of the energy sector.

1. As a member of the engineering fraternity, what motivated you to choose a career in Public Service?

Since my graduation from the university as an electrical engineer, my thinking was that this sector needs reforms and should introduce some independent regulatory mechanism. That was way back in 1996/97. At that time, I received a scholarship to study this subject in Australia, which was two-year full-time research on Electrical Industry Restructuring and its Implications for Sri Lanka. Subsequent to that study, I had the opportunity to join the team which drafted the Public Utilities Commission of Sri Lanka Act and the Sri Lanka Electricity Reforms Act of 2002. Thereafter, the Public Utilities Commission was formed, and I thought it was a good move to have joined the PUCSL so that we could implement the necessary reforms and regulatory

I am not satisfied with the present structures because the PUCSL has clearly given structures for cost accounting and also auditing and so many other aspects. But the industry being dominated by a single entity, the CEB, which controls more than 60% of the generation and entire transmission, and 85% of the distribution, is not geared to adopt these more efficient structures.

systems which are required for the sector. That's what brought me into the PUCSL.

2. How does your further education in business administration complement your technical know-how, in heading a key regulatory body of the country?

As a regulator, you need to understand various disciplines and also should have the capability to span the boundaries of these disciplines. Therefore, regulatory is not just an engineering subject; engineering is just one part of it. But it's also a part of economics, business, finance, sociology, social aspects etc. The regulator needs to combine multi-discipline. Disciplines in order to get the best results. In that sense, education in business administration has helped me greatly in understanding and spanning these boundaries of multi-disciplines.

3. What is the role PUCSL plays in defining the electricity tariffs?

PUCSL has the authority to determine the electricity tariffs. Tariffs should be

submitted by the distribution licensees and the transmission licensees. The role of the PUCSL is to ensure that these tariffs are cost-reflective and efficient i.e.; the cost of generation, transmission, and distribution of electricity should be efficient. The PUCSL should establish that these costs are efficient. Establishing the efficiency of the cost is the key area where the Commission's intervention is required. The tariffs are submitted by the licensees and finally determined by the Commission. In determining the tariff, the Commission has to go through a very transparent process where public consultation is a mandatory requirement. License holders such as CEB and LECO should demonstrate that their costs are efficient. PUCSL cannot pass inefficiencies of licensees to consumers through tariffs.

4. What are the key activities that drive cost structures of the Electricity service providers/licensees?

The electricity cost currently is more than 80% of the generation cost. The cost of fuel is the main cost driver of this electricity provider. Also, about 20% of the costs are the network losses plus the operation and maintenance cost and capital cost of the providers. Accordingly, the Commission's role is to ensure that the cost of fuel as well as the operation and maintenance costs, financial costs, and capital costs are efficient in providing such services.

Renewable energy is relatively cheaper than these fossil fuels. Therefore, I think that achieving the 70% target through renewable energy will also yield in cost reductions.

5. What is the methodology currently recommended by PUCSL to substantiate the cost information submitted by the respective network licensees to the regulator?

There is a tariff methodology prepared and approved by the Commission which is a very transparent methodology that has to be used by the licensees (CEB and LECO) to submit the costing. Further, there are transparency measures such as auditing energy procurement and having power purchase agreements with the other plants owned by the CEB. Itself and there are many other requirements like setting targets for network losses, cost accounting etc. All these measures are there to ensure the transparency of the licensees in order to get the most efficient cost and price for the consumers.



6. Are there ways that can be applied to forecast these cost elements? If so, what are the methods/benchmarks that can be used to define SMART targets in order to drive cost efficiencies of these network licensees?

There are ways of determining the cost forecast. This includes the forecasting of the prices, forecasting the demand of energy, forecasting of the investment costing etc. But I accept these forecasting technologies should be improved by the licensees further in order to get more accurate results. Also, since tariff determination is a forward-looking exercise, it is extremely important that the forecasting techniques and methods are sufficiently sophisticated to capture the changes in the markets. Currently, the CEB and other licensees use their own methods to forecast the future. The forecasting

methodology basically adopted by the licensees currently needs improvement. And those improvements are required to ensure that more accurate forecast of the demands and energy pricing in the future. Furthermost important to forecast the costs of different resources of electricity generation. This is required for a period of 20 years or more.

7. Are you satisfied with the current structures in place within these industry players to capture and report these costs?

Honestly, I am not satisfied with the present structures because the PUCSL has clearly given structures for cost accounting and also auditing and so many other aspects. But the industry is dominated by a single entity, the CEB, which controls more than 60% of the generation and entire transmission, and 85% of the distribution, is not geared to adopt these

more efficient structures. Therefore, I suggest, that there needs to be reform in the sector, where more efficient entities should play a major role in the sector than a monopolistic structure.

The electricity industry is one of the largest sectors in this country. Therefore, this sector needs the best from all fields from finance to economics to sociology to engineering to all other fields to be in the electricity sector, which, we have to realize very clearly

8. What are the Sustainable Development Goals of Sri Lanka for the Energy Industry? Where are we today in meeting these targets?

Actually, first, the government's target is 70% of the electricity by 2030 from renewable energy sources considering sustainable development.

Second, renewable energy sources are cheaper in price than fossil fuel if you get the current fossil fuel prices, which are very high at this point in time. Renewable energy is relatively cheaper than these fossil fuels. Therefore, I think that achieving the 70% target through renewable energy will also yield cost reductions.

Third, currently, we have about 40% from renewable energy including large hydropower stations and some other small hydropower stations, wind and solar power plants, but you need to increase it to 70% by 2030, where you are looking at about 6000 to 8000 Megawatts of wind, solar and other renewable sources within the next eight to nine years.

9. Given the high investment and longer payback nature of these energy projects, what are the methods that are used globally to consider the long-term societal impacts of such projects when making an investment decision?

All these projects, especially generation projects, are long-term investments. All of these have various effects on the environment, society, and also on finance. In the feasibility studies of projects, these aspects are taken into account. Some of the resources may not be acceptable to the country or to the people or the society. In that sense, those things need to be looked into again because unacceptability of the society will lead to non-implementation of these projects and hence creating a power shortage. So, it is very important, at the feasibility stage, to study the impacts on society as well as the environment from these projects.





We need a structure for the sector where all the best people in the industry who are in various fields of expertise coming and preparing these cost accounting structures and standards.

10. How equipped is the Sri Lankan energy industry to provide these non-finance KPIs to the regulator to ensure fair tariffs and sustainable investment strategies?

The Sri Lankan electricity industry, as I said earlier, should move from monopolistic nature to a competitive industry so that all these non-financial KPIs and financial KPIs come into play. With the government's monopolistic structure, it is very difficult to get these KPIs not only in Sri Lanka but also in other countries. If you are a monopoly, it is difficult to have these KPIs, especially if it is government owned. Therefore, it is important to reform this industry to ensure that all those KPIs come into play and also energy markets are created so that renewable energy could be absorbed into the sector. With a monopolistic structure, however, it is very difficult to get these new technologies and renewable energy into the sector even though there is a policy. So, considering your question, my short answer is, that we are not very much equipped due to the present status of the structure of the sector. Therefore, you need to reform the sector in order to have better products and services for the consumers.

With the government's monopolistic structure, it is very difficult to get these KPIs not only in Sri Lanka, but also in other countries. If you are a monopoly, it is difficult to have these KPIs, especially if it is government-owned.

11. What is the change you would like to see in the Cost and Managerial information reporting structures within the industry?

In this industry, the consumers need to confine basically to a single supplier in the distribution segment. Therefore, essentially, the consumers need very transparent cost information, Consumers should be satisfied that the price they pay is fair and unnecessary costs are not passed on to them. I would like to see real-time information on the costing and the other information which are required by the users of electricity so that they know they are paying the right cost for the product they use. Otherwise, people will not have confidence in the pricing, the tariff, and also on the utilities. Therefore, I would like to see real-time cost information, managerial information, and reporting structures in place. Further, transport and independent auditing is also required.

12. How do you think professionals within/ outside of the industry can help to implement these cost accounting structures and standards?

The electricity industry is one of the largest sectors in this country. Therefore, this sector needs the best from all fields from finance to economics to sociology to engineering to all other fields to be in the electricity sector, which, we have to realize very clearly. Currently, the existing industry structure does not attract the best of all fields into the sector. We need a structure for the sector where all the best people in the industry who are in various fields of expertise come and prepare these cost accounting structures and standards. You need a conducive structure and mechanism in the industry to attract the best in all the fields including finance, economics, sociology, environment, engineering etc.

Once a more dynamic, transparent, and competitive industry is formed, you can obtain the services of professionals in order to improve the sector further.

Dhananath is currently the chief operating officer of Advocata, an economic policy think-tank in Sri Lanka, where he is a founder member. Advocata Institute worked extensively on bringing down tariffs on menstrual hygiene products in Sri Lanka, reforms of State-Owned Enterprises, and Micro and Small Enterprises. Advocata was ranked as the best upcoming think-tank in 2017 and 2018 at the “Global Go to Think-Tank Index” by the University of Pennsylvania. Advocata report on “SOE’S in Sri Lanka: Beyond “Profit and Losses” made the list of best policy study reports by a think tank across the world in 2019. He read for his Bachelor’s degree in Bio-Sciences and Bio-Chemistry at the University of Colombo and is an alumnus of the International Visitor Leadership Programme by the State Department of the United States of America. And he was the winner of the “Asian Think-Tank Shark Tank Competition - 2018” in Jakarta, and a finalist for the “Think-Tank Shark Tank Global Competition” in New York in 2019. Dhananath is also a curator and founding member of AK-Lit-Fest, a trilingual literary festival dedicated to showcasing local authors of Sri Lanka. In his social responsibilities, Dhananath works with ‘people in need’ by volunteering with CandleAid Lanka, a government-approved humanitarian organization. Furthermore, he was a part of a team training vision and hearing-impaired students on swimming and safety, and the main coordinator for personality, career development, and English training for undergraduates.



In most parts of the world, state enterprises fail because there are disincentives to competition. They are shielded from competition. They have a close link to the state. They are highly politicized.

What is the state of our state-owned enterprises?

An SOE is traditionally defined as a commercial entity that has majority ownership/control by a nation's government – in Sri Lanka, this can include statutory bodies, regulatory agencies, promotional institutions, educational institutions, and public and limited companies. While Sri Lankan SOEs have traditionally been incorporated by an Act of Parliament, in recent years these entities have also been incorporated under the Companies Act instead.

Sri Lanka has a total of 527 State-Owned Enterprises out of which regular information is only available for 55. These SOEs accumulate billions of losses annually due to sheer mismanagement. The precedence of corruption in the highly bureaucratic systems that govern SOEs is also a case for alarm.

In this article, we interviewed Mr. Dhananath Fernando -Chief Operating Officer Advocate Institute, since they have done several pieces of research on state-owned enterprises in Sri Lanka during the past several years. The Advocate Institute is an independent policy think tank based in Colombo, Sri Lanka. They conduct research, provide commentary, and hold events to promote sound policy ideas compatible with a free society in Sri Lanka.

1. What is a state-owned enterprise and the purpose of establishing a state-owned enterprise?

The Ministry of Finance broadly treats any institution that is not a government department or ministry as a state-owned enterprise (SOE). SOEs are usually incorporated by an Act of Parliament, but a recent trend has been for these entities to be incorporated under the Companies Act (which is easier to set up under and reduces government oversight. Thus, SOEs in Sri Lanka include statutory bodies, regulatory agencies, promotional institutions, educational institutions, public corporations, and limited companies. We do not even have a comprehensive list of all the SOEs in the country and their roles.

Governments use other people's money, whereas businesses must risk their own money. If a business does not earn a profit, the owner will need to keep infusing funds and this provides a powerful incentive to improve efficiency.

The purpose

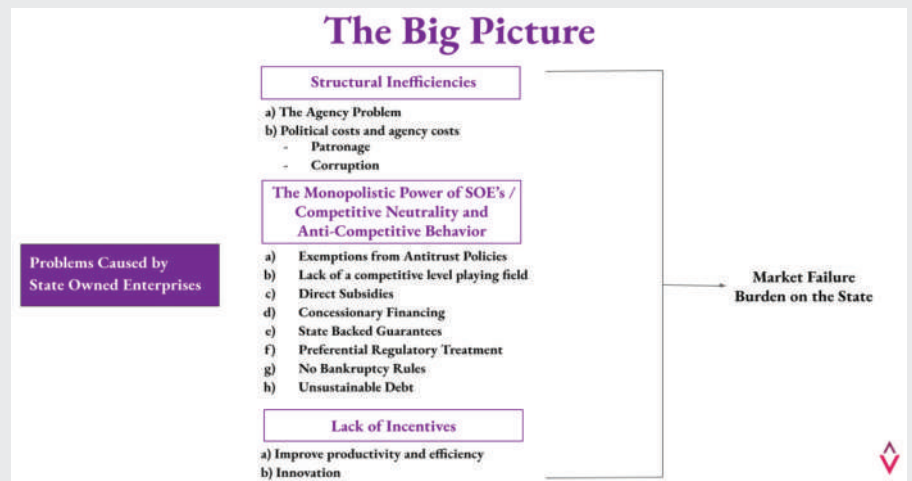
The motives for state ownership can vary but broadly they are either to pursue economic activities or public service obligations. There are instances of overlap and many grey areas, so some classifications are arbitrary. Utilities present unique challenges and so, for purposes of this initial definition, they are excluded.

2. What are the fundamental problems in Sri Lankan state-owned enterprises?

- ▶ The agency problem is a conflict of interest inherent in any relationship where one party is

expected to act in another's best interests. In business, the agency problem usually refers to a conflict of interest between a company's management and the company's shareholders. In the case of SOEs, the shareholders are ostensibly the public but they have very limited oversight in SOE financials, which allows for inefficiencies.

- ▶ Corruption is endemic in the political system of Sri Lanka, and the root of the problem lies in campaign finance.
- ▶ Political decisions affecting the long-term objectives of the state enterprises.



3. Why are the state enterprises of many countries in such very poor states? Are there any specific factors behind this and why are they making huge losses?

- ▶ In most parts of the world, state enterprises fail because there are disincentives to competition. They are shielded from competition. They have a close link to the state. They are highly politicised. Appointments are not made on merit. The market is rigged in

their favour, on prices and on production. They are protective from international competition as well as domestic competition.

- ▶ There are exceptions such as the government linked companies in Singapore. Singapore, which is a fantastic and successful economy, still has large companies that are majority state-owned, that are grouped under Temasek - the state holding company and sovereign wealth fund - and are commercially viable (largely due

to their independence from the state and requirements of profit). Some of them have done very well competing internationally.

- Singapore Airlines is perhaps the best example. The basic answer is that they have been subjected to competition in an economy which is highly open to the world.
- It is the most open economy of any size in the world with trade at close to 400 percent of GDP. The GLCs that play in the international market place are subject to fierce international competition in the marketplace. That's true of Singapore Airlines, that's true of the port services authority, and that's true of state-owned banks and so on.
- ▶ Such models are quite hard to be replicated in countries like Sri Lanka where politics is much more extrusive, where it is much more difficult to de-politicise the running of state-owned enterprises, and also where it is much more difficult to subject them to competition from both domestic and international players.

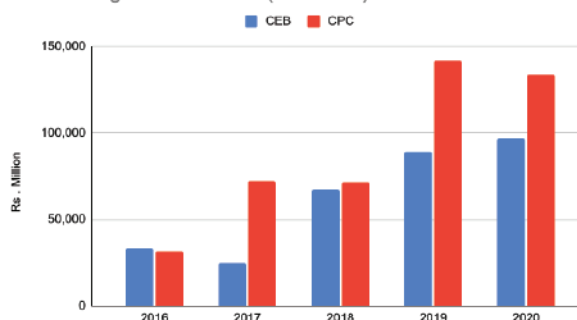
4. Presently, in Sri Lanka, why are state-owned enterprises struggling to ensure their positive contribution to the country's overall economic efficiency and competitiveness? What are the inherent problems for that?

- ▶ Governments use other people's money, whereas businesses must risk their own money. If a business does not earn a profit, the owner will need to keep infusing funds and this provides a powerful incentive to improve efficiency. The general public, whose money is effectively at risk in a state venture, do not have the wherewithal or knowledge to hold managers or politicians to account. Politicians would prefer to postpone hard decisions than risk personal unpopularity, which is why state enterprises can keep running losses year after year.
- ▶ Sri Lanka's state-owned enterprises are consuming hundreds of billions

Sri Lanka's state-owned enterprises are consuming hundreds of billions of rupees in the capital, weakening government finances, burdening the people, running up large losses, and undermining national savings.

- of rupees in the capital, weakening government finances, burdening the people, running up large losses, and undermining national savings.
- ▶ The situation with non-financial public enterprises is worse. Many continue to be a big burden on the taxpayer and also help de-stabilize the economy, hurting ordinary people.
- ▶ State energy enterprises and the state banks together form a nexus of vulnerability for Sri Lanka's economy and the stability of the currency.
- ▶ To win votes, politicians control the tariffs of energy utilities when world market prices rise. The energy utilities are forced to sell at a loss, the losses being funded by banks.
- ▶ When state banks are compelled to finance losses at state enterprises, investible funds collected from the public are misused for consumption.

Outstanding Debt To Banks (Rs Million)



- ▶ SOEs continuously make losses despite the massive treasury assistance.

SOE	Loss as at 31.07.2021 in Rs. Billion
Ceylon Petroleum Corporation	61.9
Ceylon Electricity Board	0.9
Sri Lanka Transport Board	3.2
Sri Lankan Airlines	24.8
National Water Supply & Drainage Board	0.8

5. State enterprises are run for the benefit of the public, and to be properly administered they require competent people. Unfortunately, Nepotism and Cronyism are currently practiced in Sri Lanka for some government appointments to the boards of state-owned enterprises. It doesn't mean that every relative or friend on the board of SOEs is incompetent or unsuitable. What is the negative impact of those political appointments?

SOEs are also vital outlets for political patronage for loyalists and extended family members. More often than not, they also lack the necessary business acumen and qualifications necessary to run these SOEs they are given. Given their political affiliations, these politically appointed agents of SOEs maximise their own self interests.



State energy enterprises and the state banks together form a nexus of vulnerability for Sri Lanka's economy and the stability of the currency.

Extracts

Brother-in-law of ex-President Mahinda Rajapaksa, Nishantha Wickremesinghe had used privileges reserved for the head-of-state to divert an aircraft for personal use, inconveniencing passengers and causing the airline financial and reputational damage, a commission of inquiry heard. Operations Control Manager Gopitha Ranasinghe testified at a Presidential Commission of Inquiry investigating irregularities at the state-owned national carrier from 2006 to 2018.

Former Sri Lankan Chairman Nishantha Wickramasinghe, his wife, and then Deputy Minister of Finance Sarath Amunugama, who had been in Singapore in January 2014, had returned to Sri Lanka on a flight diverted to save them one and a half hours of travel time, Ranasinghe said. He said that this had cost the airline money and possible reputational damage.

Political appointments overcrowd SOEs and further burden state finances. "In spite of these improvements, the operational losses of the SLTB increased substantially during the year, mainly due

to the increase in the total cost of wages as a result of new recruitments. The total revenue of the SLTB increased by 6.4 per cent to Rs. 35.8 billion in 2015. However, operating expenditure increased by 14.1 per cent to Rs. 40.6 billion, resulting in an operating loss of Rs. 4.8 billion in 2015, when compared to a loss of Rs. 1.9 billion in 2014." – Ramal Siriwardena, Chairman, Sri Lanka Transport Board

6. The OECD (Organisation for Economic Co-operation and Development) has published guidelines for countries to follow on how to manage their responsibilities effectively as company owners and help to make state-owned enterprises more competitive, efficient, and transparent. Are we really following those guidelines to run state-owned enterprises in Sri Lanka?

<https://economynext.com/srilankan-airlines-ex-chairman-used-head-of-state-privileges-to-divert-aircraft-for-personal-gain-11108/>

<https://www.parliament.lk/uploads/documents/paperspresented/annual-report-srilanka-transport-board-2015.pdf>

From our assessment what can be ascertained is that the vast majority of SOEs don't really follow the guidelines set out for running state-owned enterprises. These include guidelines set out by the Public Enterprises Department on reporting SOE performance. Although compliance with OECD governance standards is essential, compliance with PED guidelines can at least be a starting point. A large number of SOEs have not submitted their annual reports disregarding even the latter instructions.

The OECD Principles of Corporate Governance are an internationally accepted standard on how governments may effectively manage their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient and transparent. The OECD Guide comprises seven sections:

1. Rationales for state ownership;
2. The state's role as an owner;
3. State owned enterprises in the marketplace;
4. Equitable treatment of shareholders and other investors;

5. Stakeholder relations and responsible business;
6. Disclosure and transparency;
7. Responsibilities of the boards of SOEs.

It is advisable that the Government adopt a comprehensive framework on SOE governance to improve performance and maintain the confidence of the public. The most important points from the guidelines that have the greatest relevance to the Sri Lankan experience are elaborated upon below.

It is advisable that the Government adopt a comprehensive framework on SOE governance to improve performance and maintain the confidence of the public. The most important points from the guidelines that have the greatest relevance to the Sri Lankan experience are elaborated upon below.

A. The legal and regulatory framework for state-owned enterprises should ensure a level-playing field in markets where state-owned enterprises and private sector companies compete in order to avoid market distortions.

- a) SOEs should not be exempt from the application of general laws and regulations. Stakeholders, including competitors, should have access to efficient redress and an even-handed ruling when they consider that their rights have been violated.
- b) There should be a clear separation between the state's ownership function and other state functions that may influence the conditions for state-owned enterprises, particularly with regard to market regulation. In simple terms, there should be no preferential treatment by regulators for state-owned enterprises.
- c) The legal form under which SOEs operate should be standardized and allow creditors to press their claims and initiate insolvency procedures.
- d) Any obligations that an SOE is required to undertake in terms of public services beyond the generally accepted norm should be clearly mandated and should be disclosed to the public.

Costs related to such activities should also be disclosed. This will prevent abuses such as the funding of election campaigns and tamashas for the ministers.

- e) SOEs should face competition in funding. Their relations with state-owned banks, state-owned financial institutions and other state-owned companies should be based on purely commercial grounds. This will prevent the development of off-balance sheet black holes in public finances.

B. The State Acting as an Owner.

The state should act as an informed and active owner. A clear and ownership policy should be present, which explains the objectives of ownership against which performance can be measured.

- a) The government should issue an ownership policy that defines the overall objectives of state ownership. It must explain the state's role in the corporate governance of SOEs, and how it will implement its ownership policy.
- b) The government should not be involved in the day-to-day management of SOEs and allow them full operational autonomy to achieve their defined objectives.
- c) The exercise of ownership rights should be clearly identified within the state administration. Ideally all shareholding by the state should be centralised under one specialised body which will oversee the investments and be held responsible to parliament. This will ensure that proper attention is paid to the management of investments and consistent policies apply.
- d) The body should ensure well-structured and transparent board nomination processes and actively participating in the nomination of all SOE boards. Board nomination should not be the prerogative of the minister alone.

- e) Setting up reporting systems allowing regular monitoring and assessment of SOE performance. This will enable proper reporting to parliament.

C. Equitable Treatment of Shareholders. The state and state-owned enterprises should recognise the rights of all shareholders and ensure their equitable treatment and equal access to corporate information. This is relevant where the state owns a partial shareholding and ensures that the concerns of minority shareholders are addressed. An active policy of consultation with minority shareholders, transparency in dealings, and facilitating minority participation at shareholders' meetings are necessary.

D. Responsibility to Stakeholders. The state ownership policy should fully recognise the state-owned enterprises' responsibilities towards stakeholders and request that they report on their relations with stakeholders.

E. Transparency and disclosure. State-owned enterprises should observe high standards of transparency in the conduct of their affairs.

In particular:

- a) The entity vested with the state shareholding should develop consistent and aggregate reporting on state-owned enterprises and publish annually an aggregate report on SOEs. In Sri Lanka's case, it may also be advisable, additionally, to list all SOEs on the stock exchange. Meeting the disclosure requirements of the CSE will go a long way to improving transparency.
- b) SOEs, should be subject to an annual independent external audit based on international standards. The existence of specific state control procedures does not substitute for an independent external audit.

F. The Responsibilities of the Boards of State-Owned Enterprises.

- a) The boards of SOEs should be assigned a clear mandate and ultimate responsibility for the company's performance. The board should be fully accountable to the owners, act in the best interest of the company, and treat all shareholders equitably.

7. If we take a closer look at many state enterprises, what we can see are stalled production lines, crumbling buildings, rusting vehicles, idle workers, unsettled overdrafts, and unpaid bills, even though many state enterprises can seem large, imposing, and secure from the outside. As we know, those institutions should be productive national assets. And the government has borrowed heavily from the state banks and from foreign financial institutions and spent on those state enterprises to sustain ailing state enterprises. Do you believe we can transform these unproductive state enterprises into productive national assets through privatisation?

Yes. To a great extent, by way of privatization, these State-Owned Enterprises can be transformed into productive enterprises. Sri Lanka's own experience with privatization illustrates the economic benefits of privatization.

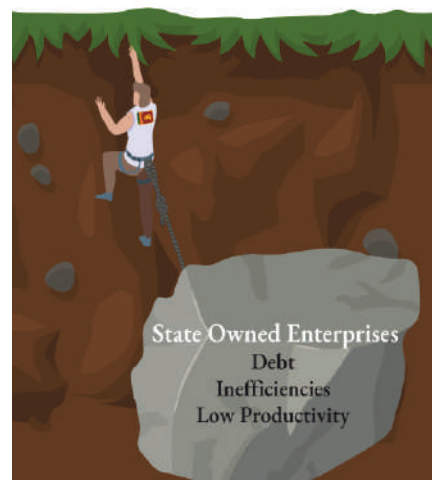
Privatization served as a significant channel for FDI entry, and privatization-related FDI accounted for at least one-third of FDI in the 1990s. The largest 20 foreign investors in Sri Lanka all arrived in the 1990s and made significant contributions to telecommunications, power, ports, and other areas of services and manufacturing. To be effective, it is critical that privatizations are carried out through open and transparent processes.

The Public Enterprises Reform Commission (PERC) was established under an Act of Parliament in 1996 to be solely responsible for ensuring that the privatization process occurred in a transparent and structured manner. Although not entirely free of controversy, PERC increased transparency and public information about the privatization process. However, PERC was shut down; it is now necessary to revive PERC and put in place measures to ensure transparent and competitive processes.

8. What are the potential reforms you suggest for state-owned enterprises?

The Main Reforms:

1. Compiling a comprehensive list of all SOEs and setting basic reporting procedures;
2. Strengthening COPE and COPA;
3. Implementing the OECD Principles of Corporate Governance.



The government should issue an ownership policy that defines the overall objectives of state ownership. It must explain the state's role in the corporate governance of SOEs, and how it will implement its ownership policy.

Solutions

1. Privatization
2. Restructuring and Disinvestment
3. Listing on the Colombo Stock Exchange

Immediate reforms

1. Strengthening Governance
2. Improving Efficiency
3. Cost Reflective Pricing
4. Unbundling Key Sectors

Consistent reforms

9. Inefficiency and poor performance of SOEs place enormous negative implications on the economy. Privatization, therefore, is inevitable and/or necessary. What are the key objectives of the privatization initiative?

Such Objectives include:

1. Ensuring that privatization has political support at the highest level;
2. Identifying and articulating policy objectives up-front;
3. Ensuring transparency and the integrity of the process;
4. Drawing upon external advice and dedicating resources;
5. Addressing competition and regulatory issues prior to sale;
6. Ensuring that effective communication of the policy is in place to explain the policy, and to address stakeholder concerns;

7. Eliminating restrictions on foreign ownership.
8. Sequencing of sales, which can affect the programmes' success;
9. Staging of a sale should be driven by commercial considerations.
10. post-privatization control devices should be used judiciously.

10. Restructuring and privatisation of state-owned enterprises (SOEs) are said to be an alternative, and often complementary, approaches to meeting the objectives of national and international economic efficiency. Privatisation and enterprise reform has been identified as a key element of structural reform in many developed, as well as developing and transitioning economies. What is the scope and the impact of privatisation?

It will improve the running of the enterprises, make them more commercially viable, and more productive.

As a first step, there is no point in setting up a state-owned holding company and publicizing it as something that's done following the Temasek or the Khazanah (Malaysia's state-owned holding company) model if you're not going to change current operating procedures.

We will need to identify enterprises that operate in a commercial sphere, where there is some competition already or where there could be more competition.

Then, there should be a process to corporatize them with initially majority state ownership. Then, minority equity participation can be introduced.

Likewise, non-priority enterprises can take the private sector stake to a majority of equity while the government retains only a minority of equity.

11. Privatisation always helps in keeping consumer needs first and foremost, it helps the governments pay their debts, it helps in increasing long-term employment and job growth, and promotes competitive efficiency and an open market economy. Furthermore, for any economy, privatisation is important because it builds

healthy competition in the market and maximises profit by improving the standards of customer services and goods. What are the key objectives and benefits of privatisation initiatives?

- a) A reduction in the drain of government resources.
- b) The generation of new sources of government revenues through receipt of proceeds.
- c) The improvement of infrastructure and delivery of public services by the involvement of private capital and expertise.
- d) The improvement of the regulation of the economy by reducing conflicts between the public sector's regulatory and commercial functions.
- e) The improvement of the efficiency of the economy by making it more responsive to market forces.
- f) The broadening of the base of ownership in the economy.

- g) The enhancement of the capital markets.

12. There are several practical obstacles and challenges to privatization and public enterprise reforms that must be addressed to build on its successes and move ahead in achieving the expected results. What are the key issues and challenges of privatization and enterprise sector reform?

- ▶ Weak parliamentary oversight.
- ▶ Lack of a structural framework for the privatization of SOEs.
- ▶ Lack of a political will to carry out reforms such as privatization.
- ▶ Entrenched trade union opposition to privatization.
- ▶ Lack of a comprehensive strategy for privatization.
- ▶ Public misperceptions and misconceptions surrounding privatisation.



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Prior to joining TISL, Ms. Perera was involved with humanitarian, development, and advocacy-based non-Governmental organizations, where she managed diverse projects, led advocacy and engaged in donor relations and capacity building. Thereafter as an Independent Consultant, she has been involved with the development of National Guidelines and National Policies with State agencies such as the National Child Protection Authority and the Sri Lanka Police, in addition to working with civil society organizations on strategy development, rights-based situation analysis, and training.



The need for transparency and accountability in the Government and public sector

Transparency International Sri Lanka (TISL) is the local chapter of Transparency International which is a global movement against corruption, committed to promoting good governance and eradicating corruption. For two decades TISL has been passionately pursuing its mission to “Contribute to the collective effort to eradicate corruption in Sri Lanka”, inspired by its vision of “A nation that upholds integrity”. Transparency International defines corruption as ‘The abuse of entrusted power for private gain’ and it is posited that corruption takes place where pressure, opportunity, and rationalization intersect.

In this exclusive interview with TISL’s executive Director Nadishani Perera, we focus on their findings and views on transparency and accountability in the Government and public sector of the country and their recommendations.

1. What are the actions and methods used by TISL to promote good governance and eradicate corruption?

- ▶ Transparency International Sri Lanka (TISL) is a local non-government organization affiliated with Transparency International, the global movement against corruption. TISL's mission is to contribute to the collective effort to eradicate corruption in Sri Lanka. As a local organization, TISL raises awareness of the damaging effects of corruption and works with partners in government, business, and civil society to develop and implement effective measures to tackle it.
- ▶ TISL drives its fight against corruption with a holistic perspective of the issue as it is important to influence and positively engage with a variety of stakeholders to address the issue of corruption. In order to do that, the involvement of public officials, public representatives, the corporate sector, and most importantly, the community is crucial. Therefore, TISL's work is carried out through four main sectors, namely the Political Sector, Public Service Sector, Private Sector, and Community Sector.
- ▶ Under the Political sector, TISL seeks to address the corruption of political representatives and governance systems, by advocating for greater transparency and accountability. Therefore, the political sector engages in advocacy campaigns on matters such as demanding accountability from the public representatives by publicly disclosing their declarations of assets and liabilities, enacting legislation to regulate election campaign financing, and introducing a legal framework on proceeds of crime that would enable the recovery of stolen assets and management of such recovered assets.
- ▶ Through the Public Service sector, TISL works with public officials to address inefficiencies and systemic

TISL drives its fight against corruption with a holistic perspective of the issue as it is important to influence and positively engage with a variety of stakeholders to address the issue of corruption.

corruption among public officials and state institutions. TISL engages in the capacity building of public officials on anti-corruption tools and by facilitating the strengthening of anti-corruption mechanisms within state institutions. TISL also engages in election observation with a special focus on the misuse of public property and resources during the elections. In addition to that, the team also leads the annual program "Integrity Icon Sri Lanka" to recognize and honor public officials who demonstrate integrity and exemplary service, going above and beyond their scope of work to serve their communities.

- ▶ Having recognized that the corporate sector is a key player contributing to corruption, as well as an enabler of various forms of corruption, TISL's private sector work seeks to initiate and maintain an anti-corruption discourse within the corporate sector. This team conducts an annual assessment on companies listed on the Colombo Stock Exchange to assess corporate disclosure practices through publicly available information, examining their reporting on anti-corruption programs, organizational transparency, and domestic financial reporting. This sector also is focused on building relationships with companies and other key stakeholders such as Chambers of Commerce, business associations, and professional organizations to encourage these organizations and their membership to stand against corruption. This is further supported through one-on-

one meetings to provide guidance to companies and through providing pieces of training and material on anti-corruption.

- ▶ As the fourth pillar, the Community sector works towards empowering citizens from diverse backgrounds, genders, and ages, as well as civil society organizations and investigative journalists to identify, mobilize, reject and expose corruption by raising awareness on bribery and corruption and anti-corruption tools, providing free legal advice and assistance to victims and witnesses of corruption, and through the facilitation of Right to Information (RTI) requests for the citizens to obtain information from public authorities. Through the community sector, TISL works with 23 partner organizations covering the 23 districts, in addition to TISL's own branches in Vavuniya and Matara, where these partners run RTI Hubs that create awareness and support people in the locality to file and pursue RTI requests.
- ▶ Apart from that, TISL contributes to the advancement of the anti-corruption legal framework of the country, through active involvement in providing input for any progressive anti-corruption legal amendments. TISL also responds to emerging corruption issues by playing the watchdog function, through the monitoring and recording of corruption scandals, filing of Right to Information requests, filing of complaints with the Commission to Investigate Allegations of Bribery or Corruption and through litigation where possible.

Through the Public Service sector, TISL works with public officials to address inefficiencies and systemic corruption among public officials and state institutions.



2. What does The Corruption Perceptions Index (CPI) score of a country published by Transparency International reflect and how is it calculated?

- ▶ The Corruption Perceptions Index (CPI) is published annually by Transparency International Secretariat in Berlin, Germany. It scores 180 countries and territories around the world, based on their perceived level of public sector corruption. The types of public sector corruption the CPI focuses on includes bribery, diversion of public funds, effective prosecution of corruption cases, adequate legal frameworks, access to information, and legal protections for whistle-blowers, journalists and investigators. The CPI uses a scale from 0 to 100; where a score of 0 means a country is considered highly corrupt and a score

TISL contributes to the advancement of the anti-corruption legal framework of the country, through active involvement in providing input for any progressive anti-corruption legal amendments.

- of 100 means the country is considered clean.
- ▶ The CPI collects data from 13 external sources including the World Bank, World Economic Forum, think tanks and others, reflecting the perception of experts and surveys from businesspeople.
- ▶ Since the information gathered from these sources does not have a standard scale to rank countries, TI transforms

these scores into standardized values which would then show how each country is ranked.

3. How can Transparency International advocacy or its findings influence/ impact the socio-political and economic dynamics of a country and FDI?

- ▶ As part of advocacy at Transparency International, the movement monitors country contexts and emerging trends of corruption in the world, through gathering, compiling and analysing available information. Such critical and timely information and action points are shared with key stakeholders. A key feature of the advocacy of the TI Movement is that such interventions are purely evidence-based and built on both the movement's experience and credibility gained by national chapters

at the local level. In that sense, TI's advocacy can have a considerable impact on the socio-political and economic dynamics as well as Foreign Direct Investment of any country, since the subject of 'corruption' has gained more attention in recent years.

- ▶ For example, investors are often reluctant to invest in countries that perform poorly on the Corruption Perceptions Index. However, lack of progression in the CPI, reported inefficiency and lack of oversight in the public sector, could result in attracting corrupt investors who could potentially take advantage and use the opportunity to launder corrupt money, in the form of foreign direct investment.
- ▶ TI's advocacy can also lead to transforming societies by empowering citizens to report corruption and demand accountability from public representatives. For example, TISL's advocacy campaign demanding the public disclosure of declarations of assets and liabilities of public representatives has become very popular in the current context, manifesting a change in the political culture as public representatives have started to come forward to disclose their assets due to public pressure that emanated through the campaign.

4. What is Sri Lanka's CPI score and how has it performed over the years compared to its key trade partners and regional players?

- ▶ Sri Lanka's score in the latest CPI conducted in 2021, was 37. In 2020, Sri Lanka's score was merely one point higher (38). Sri Lanka's rank has dropped from 94th in 2020 to 102nd in 2021. The latest CPI (2021) looked back at the past decade as well. The findings showed that Sri Lanka's CPI score has remained almost the same over the past 10 years. Sri Lanka reported its lowest score of 36 in 2016 and its highest score of 40, in 2012.
- ▶ Sri Lanka's key trade partners such

The Proceeds of Crime Act (POCA) which focuses on the recovery of stolen assets should be passed in parliament as law. This would enable Sri Lanka to work with foreign states to trace and return stolen assets to the country.

as China and India, scored 45 and 40 respectively.

- ▶ Other South Asian countries, such as Pakistan, Bangladesh and Nepal scored 28, 26 and 33 respectively. In early 2021, Transparency International explained that key players in the Asian context have displayed very little progress. However, Maldives demonstrated an upward trend in 2020, with an increase of 14 points on the index since 2019.

5. What are the main thematic issues that have resulted in Sri Lanka's CPI underperformance and how are TISL's 2021-2025 strategic goals aligned to address these issues?

- ▶ According to the methodology used to calculate CPI scores, a lack of progression in addressing several corrupt practices exclusively in the public sector would result in countries scoring lower and obtaining a lower rank. Some of the corrupt practices the CPI looks at include bribery, diversion of public funds, officials using their public office for private gain without facing consequences, ability of governments to contain corruption in the public sector, excessive red tape in the public sector which may increase opportunities for corruption, nepotistic appointments in the civil service, lack of laws ensuring that

public officials must disclose their finances and potential conflicts of interest, limited legal protection for people who report cases of bribery and corruption, state capture by narrow vested interests and limited access to information on public affairs/government activities.

- ▶ TISL's strategy is designed to address these corrupt practices in a holistic manner by working with the political, public, private and community sectors.
- ▶ TISL believes that the thematic issues that may have played a part in Sri Lanka's underperformance in the 2021 CPI could be impunity, lack of regulation and oversight of procurement procedures, absence of cooperation between law enforcement agencies, limited resources provided for law enforcement authorities, lack of disclosure requirements of finances and conflicts of interest of public officials and the dismantling of the accountability structure of the country through continuous constitutional amendments.
- ▶ TISL in its 2021-2025 strategy, has prioritized advocacy for laws such as the Proceeds of Crime Law which focuses on the recovery of stolen assets and a law on Campaign Finance to regulate election campaign financing and improved laws on Asset Declarations to address corruption in Sri Lanka. TISL has also filed complaints with the Commission to Investigate Allegations of Bribery or Corruption (CIABOC), Sri Lanka's Anti-corruption agency, to conduct investigations into emerging corruption issues and has taken steps to raise awareness about such instances among the public.

6. How will you explain the need for anti-corruption and an open government to enhance accountability of private and CSO sectors?

- ▶ Having an open government means that the governance of a country operates on the key principles of transparency, accountability, and

public participation. This can be further explained as a state of governance that promotes and encourages inclusion and diversity in decision making, accessibility and availability, open data and collaboration between various stakeholders.

- ▶ Open government improves transparency in the private and civil society sectors as well. It entails not only giving access to government information, but also sharing information and collaborative governance between the government and private sector and civil society.
- ▶ The private sector is an important player in open governance as they have resources, human capital, and other capabilities the government requires to address socio-economic issues and enhance their services. They can support the government by providing services to the public more efficiently and effectively. On the other hand, the private sector should be held

accountable by the government. In this context, enhanced transparency and full disclosure on partnerships between the public and private sectors is crucial. It is no secret that such partnerships could often lead to conflicts of interest, with the private sector funding election campaigns and exploiting the procurement process by bribing public officials and public representatives for their own benefit.

- ▶ Open government could also create opportunities for social and commercial innovations, with the resources and expertise from the private and civil society sectors.
- ▶ The private sector also has the ability to provide technical tools and sites that would allow citizens to look into the state's internal processes.
- ▶ It can also enhance the ability of CSOs to monitor government and private sector practices to ensure that government services are delivered

efficiently and effectively, while being a watchdog on corruption.

7. One of TISL's 2021-2025 strategic priorities is to support a transparent and accountable public sector and to track accountability and enhance transparency mechanisms within public institutions. How do you aim to accomplish this and what are the KPIs or data sources that will be used to monitor public sector accountability?

- ▶ TISL's Integrity Icon Sri Lanka (IISL) program recognises honest public officials who work with integrity by publishing their stories to create a positive narrative about the public service sector. The program also identifies potential role models for the



youth and aspiring potential public sector recruits.

- ▶ TISL also launched ApeSalli.lk, a platform to track and publicize the misuse of public property. Anyone can utilise ApeSalli.lk to report the misuse of public property with evidence. This platform also provides analysed data for the public and provides information such as institutions which are repeatedly reported against by citizens as corruption hotspots. This provides an opportunity for the public to come forward and report cases of corruption faced by them and their peers.
- ▶ TISL conducts trainings for public officials on anti-corruption best practices with focus on Sri Lanka's Bribery law, Right to Information law, and the law on the Assistance to and protection of Victims and Witnesses of crime, to name a few.
- ▶ TISL's public sector objectives and interventions can be viewed through this link - <https://www.tisrilanka.org/wp-content/uploads/2021/06/SP21-25-1.pdf>
- ▶ Data on public sector corruption in the Global Corruption Barometer can be viewed here - <https://www.transparency.org/en/gcb>

8. Uncovering the beneficial ownership of companies, property and other assets is a global priority in combating anti-money laundering and corruption. What are the technological & regulatory advancements, and global standards that can be introduced in both public and private institutes to enable this global priority?

- ▶ The Pandora papers which were released in October 2021, highlight the use of offshore shell companies and tax havens for unethical if not

illegal dealings, including tax evasion, money laundering, and terrorist financing. Within Sri Lanka too, we see the exploitation of murky corporate structures and weak anti-corruption programmes to engage in unethical corporate behavior. Such illegal activity often goes unchecked due to unclear lines of beneficial ownership which ensures that the ultimate, human beneficiaries of such corrupt companies face no consequences for wrongdoing.

- ▶ A beneficial owner is the real person who ultimately owns, controls or benefits from a company and the income it generates. The term is used to contrast with the legal company owners who might be registered as the legal owners of an asset without actually possessing the right to enjoy its benefits.
- ▶ Sri Lanka does not have a comprehensive and public mechanism to identify beneficial ownership, even though since 2018 there has been conversation around the need to amend the Companies Act No. 7 of 2007, to have increased transparency on beneficial ownership. Currently, data on registered companies is available to the public, but not online. Any interested party may access the relevant documents by paying a specified fee to the Registrar of Companies. However, it is usual for persons to refer this service through a lawyer rather than directly accessing it, making it in practice, tedious. Financial Institutions also play a key role in preventing illicit money entering the financial system. Financial Institutions are required by the Central Bank to conduct due diligence on all customers and are required to find out the beneficial owners of these accounts and businesses. However, this information is not publicly available.
- ▶ Therefore, it is important that Sri Lanka creates and maintains a publicly accessible register of beneficial owners. The register will be useful to

TISL encourages the Sri Lankan accounting fraternity to blow the whistle when witnesses or encounters corruption and increases transparency within the sector by disclosing all relevant information to the general public, particularly, any engagement with the government which would result in increased accountability in the accounting sector.

trace proceeds of crime and will also be an effective preventive measure of corruption and money laundering. Several countries around the world have already established beneficial ownership registers which are being effectively utilised and monitored by law enforcement authorities.

- ▶ The Proceeds of Crime Act (POCA) which focuses on the recovery of stolen assets should be passed in parliament as law. This would enable Sri Lanka to work with foreign states to trace and return stolen assets to the country.
- ▶ TISL created a database of Politically Exposed Persons (PEPs) which can be accessed freely through www.peps.lk. As recognized by the Financial Action Task Force (FATF), PEPs are individuals who are in positions that can be potentially abused for the purpose of committing corruption, bribery, money laundering, and terrorist financing. As a result, it is important that these individuals are recognized, and their transactions

subjected to enhanced scrutiny. TISL's PEP Database has Individual profiles, Ministry profiles and profiles of State-Owned Enterprises (SOEs). It is the first database of its kind in Sri Lanka, run completely by a Civil Society Organisation and consists of 2893 individual profiles, 254 SOE Profiles & 62 Ministry Profiles. The database can be utilised by banks, financial institutions, insurance companies and law enforcement and regulatory authorities to monitor transactions and prevent money laundering and terrorist financing.

9. How can the Sri Lankan accounting fraternity help TISL in its endeavour to improve public sector transparency and good governance?

- ▶ TISL encourages the Sri Lankan accounting fraternity to blow the whistle when witnesses or encountering corruption, increase transparency within the sector by disclosing all relevant information to the general public, particularly, any engagement with the government which would result in increased accountability in the accounting sector.
- ▶ As the private sector work of TISL focuses on facilitating accountability within the sector, the accounting fraternity could engage with TISL as a partner by encouraging its peers and membership to adopt a zero-tolerance policy against corruption and to be updated on anti-corruption best practices which can be implemented in their respective organisations and associations.
- ▶ Accountants and accounting firms can be described as professional gatekeepers in the field of anti-corruption. It is their role to shut the door for the corrupt and report such instances. However, in the current context, they have become enablers who support the corrupt to wriggle out. Such professions when coupled with high level political or public power, could result in assets and public funds being stolen away from countries like Sri Lanka and hidden elsewhere. It becomes very difficult to prove such crimes as they are well orchestrated, utilising professional advice and expertise.

IS THERE A PERCEPTION DIFFERENCE BETWEEN PREPARERS AND USERS IN TERMS OF INTEGRATED REPORTS IN SRI LANKA? AN ANALYSIS AND POLICY RECOMMENDATIONS

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1. BACKGROUND

Corporates recognized the significance of financial and non-financial information in making economic decisions of a wide variety of users. Traditional corporate reporting (i.e., Financial Reporting) primarily provides information on the company's financial position and financial performance to support decision-makers which is mandatory for certain entities. These financial disclosures are widely used by capital providers (debt and equity), financial analysts and potential investors. Modern corporates operate in

a turbulent environment with emerging trends such as value creation, sustainable development, socially responsible investments, green supply chain management, green marketing, etc. These trends uplift the stakeholder demand for non-financial information such as forward-looking disclosures and disclosures on Environmental, Social and Governance (ESG) issues. However, traditional corporate reporting has failed to satisfy increasing stakeholder demand for these broader ranges of information to make decisions (Adhariani & de Villiers, 2018; Anojan, 2019).

Consequently, corporates began to report non-financial disclosures on a voluntary basis using the guidelines provided by various professional bodies such as the Global Reporting Initiatives (GRI), Carbon Disclosure

Project (CDP), etc. Scholarly works highlighted that there is a lack of connection between financial and non-financial information when corporates issue single reports voluntarily (Kilic & Kuzey, 2018). In addition, the global financial crisis during 2007 – 2009, also urged the need to improve the financial stability and rebuild investors trust in the capital market. The International Integrated Reporting Council (IIRC) introduced modern corporate reporting guidelines called “Integrated Reporting” to address the patchwork of supplementary reporting. The Integrated Report (IR) can be defined as “a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term” (IIRC, 2021, p.10).

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Statistically, significant perception differences exist in content element categories of Governance, Strategy and resource allocation, and Basis of presentation and presentation where preparers perceived these to be more important than users.

”

Integrated Reports (IRs) are expected to provide useful information to a wide variety of stakeholders including financial capital providers. On one hand, internal and external stakeholders believe that IRs provide a holistic picture of the organization's value-creating ability using six types of capitals (i.e., financial, manufactured, intellectual, human, social and relationship, and natural) with greater transparency. On the other hand, in the developed country contexts, prior researchers found that stakeholders perceive that IRs provides excessive information with repetitions (Gunaratne & Senaratne, 2017; Naynar et al., 2018). Although IR guidelines insist corporates to maintain conciseness, they often seem to be too prolix and discursive. Moreover, the use of complicated terminologies reduced the readability of the reports.

Thus, there is an unknown problem in the Sri Lankan context i.e., whether IRs contains important information (content elements)? Accordingly, we initially assessed the level of perceived importance on the content elements of IRs. IR is an outcome of an integrated thinking process. It is prepared by corporate report preparers (i.e., Accountants, Managers, Chief Financial Officers, etc.) based on the guidelines provided by professional bodies and used by corporate report users (i.e., Employees, Investors, Government, General public, etc.). In line with that, preparers' perceived importance towards the content elements of IRs may or may not be consistent with users' perceived importance. If there is a difference between preparers' perceived importance and users' perceived importance towards the content elements of IRs, it may result an 'unhealthy perception gap' that needs to be reduced to maximize the usefulness of IRs. As a result, secondly, we investigated the perception difference between preparers and users of IRs concerning the content elements on an overall basis as well as towards each content element of IRs (i.e., *Organizational*

overview and external environment, Governance, Business model, Risks and opportunities, Strategy and resource allocation, Performance, Outlook and Basis of preparation and presentation).

The rest of this article is structured as follows. The next section outlines the methods used in this study, Section 3 discusses the findings, and the concluding remarks are presented in the final section.

2. METHODOLOGY

We followed a quantitative approach, which is deemed appropriate in assessing the levels and the difference of perceived importance on IRs and their content elements. Based on prior literature we identified elements and sub-elements on the contents of the IRs for the study (IIRC, 2021). As a result, eight (8) elements with sixty-four (64) sub-elements in total were used to measure the variable of perceived importance. We allowed respondents to range these elements and sub-

elements from "Not important = 1" to "Very important = 5". These data were collected using two versions of self-administrated questionnaires developed for both preparers (i.e., who directly and/or indirectly assist in the compilation of the data for, and the preparation of corporate reports) and users (i.e., the stakeholders who use corporate annual reports to make economic decisions). The next section provides the data analysis and findings of the study.

3. ANALYSIS AND FINDINGS

Based on the methodology explained in the above section, at first, our study assessed the level of perceived importance given to the content elements of IRs. Table 1 given below indicates the overall perceived importance towards the content elements of IRs and the mean values were derived and interpreted based on a five-point Likert scale (1 = Least important to 5 = Most important).

Table 1: Perceived importance on the content elements of IRs

Elements	Mean	Rank
Overall perceived importance given to the content elements of IRs	4.21***	-
Organizational overview and external environment	4.34***	1
Strategy and resource allocation	4.28***	2
Risks and opportunities	4.24***	3
Basis of preparation and presentation	4.22***	4
Performance	4.21***	5
Outlook	4.20***	6
Governance	4.17***	7
Business model	4.06***	8

Source: Author constructed

*** $p < 0.01$ and ** $p < 0.05$ and * $p < 0.10$

The study interestingly found that respondents perceive that the IRs contain important content elements on an overall basis (i.e., 4.21 out of 5). Furthermore, it is interesting to note that all the content element categories are perceived to be important by the respondents (i.e., above 4 out of 5). In terms of individual content element categories, Table 1 also indicates that the most perceived important content element of IRs was the Organizational overview and external environment, which is ranked as No. 1 in the table. In agreement with these findings, existing studies indicate that stakeholders believe that IRs possess potential benefits such as greater clarity about relationships and commitments, better decisions, the enhanced commitment of stakeholders, and reduction in reputational risk (Magnaghi et al., 2014).

While corporate report preparers prepare IRs, users utilize the variety of information contained in these reports in making their economic decisions. Secondly, the study investigated the perception difference between preparers and users on IRs with regard to the content elements of IRs (the results are Shown in Table 2).

Table 2: Perception gap between preparers and users

Elements	Perception Gap a
Overall perceived importance given to the content elements of IRs Preparers	(4.28) > Users (4.16) **
Organizational overview and external environment	Preparers (4.34) > Users (4.33)
Strategy and resource allocation	Preparers (4.42) > Users (4.18) ***
Risks and opportunities	Preparers (4.20) < Users (4.26)
Basis of preparation and presentation	Preparers (4.35) > Users (4.12) ***
Performance	Preparers (4.24) > Users (4.18)
Outlook	Preparers (4.28) > Users (4.15)
Governance	Preparers (4.28) > Users (4.08) **
Business model	Preparers (4.13) > Users (3.99)

Source: Author constructed

a Perception gap is the difference between the perceived importance of preparers and the perceived importance of users. The mean values are indicated in brackets (1-5 Likert scale is used).

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$ for independent sample t-tests

Users and preparers both perceived that IRs contains important content elements on an overall basis. However, the findings shown in Table 2 provide evidence to support that preparers' perceived importance is greater than the users' perceived importance on the content elements of IRs on an overall basis (Preparers [4.34] > Users [4.33]). Further, it is also important to note that preparers' perceived importance for all the individual content element categories is greater than users' perceived importance except for the content element of Risks and opportunities. Moreover, we also observed statistically significant perception differences for the content element categories of Governance, Strategy and resource allocation, and Basis of preparation and presentation. As a result, it is apparent that there is a perception gap between preparers' belief in the level of importance and the view of users. In agreement with this finding, scholars argued that the content elements of IRs focused on the preparers' perspective, i.e., the supply-side rather than the users' perspectives, i.e., the demand side (Stubbs & Higgins, 2014).

“Regulators may introduce regulations on IRs on an incremental basis rather than as a full mandatory obligation at the initial stage. With the establishment of such requirements, the professional bodies could introduce standards for integrated reporting.”

4. CONCLUSION AND POLICY RECOMMENDATIONS

Initially, the study assessed the level of perceived importance given to the elements of IRs by users and preparers and concluded that IRs consist of important content elements on an overall basis. More specifically, all eight content element categories are also perceived to be important by both users and preparers. However, the importance of each content element was found to be relatively different. Afterwards, the study investigated the perception gap between preparers and users on IRs with regard to the individual elements, and the study concluded that a perception difference





We also propose professional bodies revise guidelines and introduce standards on an incremental basis by undertaking a thorough stakeholder analysis by taking into consideration the various stakeholder groups.

exists between preparers and users on the content elements of IRs on an overall basis as preparers' perceived importance is greater than users' perceived importance. Furthermore, the findings also indicated that statistically significant perception differences exist in content element categories of *Governance, Strategy and resource allocation, and Basis of presentation* and presentation where preparers perceived these to be more important than users.

Our study provides two-fold crucial insights into the concept of IRs (i.e., the adaption of IRs and the perception gap on IRs). Initially, the study testified information needs of the stakeholders in the Sri Lankan context and interestingly remarked that IRs contains important content elements. Thus, the findings alert corporates who refused to greenlight the adaption of IRs. As a result, we highlight that Integrated Reporting as a better corporate reporting practice than conventional corporate reporting. While corporates take their initiatives on the adaption of IRs, policymakers should promote publishing IRs. Especially, the regulatory bodies could stimulate companies with more stringent guidelines on IRs, and even think of gradually of making such guidelines mandatory, which is the case of South Africa. Accordingly,

regulators may introduce regulations on IRs on an incremental basis rather than as a full mandatory obligation at the initial stage. With the establishment of such requirements, the professional bodies could introduce standards on integrated reporting.

Next, we examined the perception gap between preparers and users of IRs. Ideally, there should not be a perception gap since preparers prepare corporate reports to meet the information needs of the users. Unfortunately, to the contrary, we observed a difference between preparers and users on the perceived importance related to the content elements of IRs which may lead to negative consequences such as information asymmetry, lack of credibility on the disclosures, lack of transparency, dissemination of non-value adding information, etc. We believe that this may become a crucial problem that we need to discuss and draw the attention of companies, regulators, and policymakers. Accordingly, based on our observations we propose strategies to reduce the perception gap. For instance, regulatory bodies and policymakers could create awareness on IRs among both preparers and users and educate preparers on the preparation of IRs and users on the use of IRs with reasonable information needs. Further, we also propose professional bodies to revise guidelines and introduce standards on an incremental basis by undertaking a thorough stakeholder analysis by taking into consideration the various stakeholder groups. Ultimately, our observations are expected to place a great emphasis on the concept of IRs from preparers' and users' perspectives to reinforce the adaption of IRs and to shrink the perception gap with regard to IRs.

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WHAT ARE YOU WORTH? SALARY STATISTICS BODE WELL FOR ACCOUNTANTS

By Christopher Niesche

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Accountants can expect modest pay rises in the coming year as employers strive to retain staff in a talent constrained market.

Global recruitment firm Hays, which has recently released the 2021/22 edition of its **annual Australia and New Zealand salary guide**, says that a renewed sense of optimism swept across Australia's accountancy and finance jobs market in early 2021, bringing with it an increase in vacancy activity as employers reintroduced roles and added to their teams.

However, Hays has also warned that the resulting increase in demand for candidates has not been matched by a similar rise in the number of jobseekers. Most accountancy professionals decided to remain in their existing roles when the

COVID-19 pandemic struck in 2020, and many still maintain this mindset, further fuelling the candidate shortage.

In response, some 57 per cent of accountancy and finance employers plan to increase salaries by up to 3 per cent when they next review pay, Hays says. In greatest demand in the commercial market are qualified accountants from the Big Four.

"Increased financial scrutiny following the pandemic is driving demand for those with strong technical training, exposure to audit or assurance processes and the willingness to step outside the scope of their role and assist their finance colleagues if necessary," Hays says.

In Sydney, a group financial controller or

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Most accountancy professionals decided to remain in their existing roles when the COVID-19 pandemic struck in 2020, and many still maintain this mindset, further fuelling the candidate shortage.”

financial manager of a company with an annual turnover of over A\$300 million can expect a median salary of A\$265,000.

A finance manager in a company with less than A\$100 million in Melbourne can expect a salary of A\$117,000, according to Hays.

Commercial analysts are also in high demand.

"Candidates need experience using analytics tools, strong stakeholder engagement skills and an ability to interpret and explain complex financial data to sales, marketing and the C-suite. With organisations increasingly looking forward, this demand will only intensify further."

In private practice, all levels of candidates are in demand, particularly business services managers. At the manager level, employers look for qualified candidates with at least seven years of experience

“

Increased financial scrutiny following the pandemic is driving demand for those with strong technical training, exposure to audit or assurance processes and the willingness to step outside the scope of their role and assist their finance colleagues, if necessary.”

and substantial direct client management experience.

Principals in private practice can expect to earn more than A\$140,000 in Brisbane, the Gold Coast and the Sunshine Coast, and more than A\$165,000 in Adelaide.

A business services candidate with six or more years of experience in private practice in Perth can expect a salary in the range of A\$82,000 to A\$97,000, while in Hobart and Launceston the salary range for a similar candidate would be A\$85,000 to A\$110,000.

Hamish Smith, Sydney-based senior manager in professional services at Robert Walters, says the closure of international borders and state-based lockdowns have also contributed to the talent shortage.

“Candidates need experience using analytics tools, strong stakeholder engagement skills and an ability to interpret and explain complex financial data to sales, marketing, and the C-suite. With organizations increasingly looking forward, this demand will only intensify further.”

“A ‘war on talent’ ensued, which essentially is a high amount of demand, with very little supply, and with that, organisations are battling to attract and retain talent,” says Smith.

“Overall, 2021 was the year of stability for accountants’ salaries. Marginal increases in some areas were brought about by talent retention strategies as opposed to a significant increase in demand.”

He expects salaries to increase slightly in some areas in 2022, particularly in technical disciplines such as tax and treasury.

“Retention of top talent, inflated counter offers and low unemployment levels are driving this change. In the war on talent, until borders fully reopen and we see

more international talent flow, wages are going to continue to be used to retain and attract the right staff,” he says.

Smith says changing legislation in tax and superannuation has placed professionals with tax experience in high demand. System accountants are also highly sought after by most organisations as they focus on efficiency and process improvement.

“More than ever, professionals that have a broad skillset across tax, systems and technical accounting are in demand. Corporates are still very much in cost control mode as economic conditions fluctuate, meaning those professionals who can show they can add value in areas outside of their initial scope are highly valuable,” he says.

“Corporates and firms are also looking for their employees to show flexibility. A lot of businesses have invested a lot

of time and trust in flexible working arrangements, work from home, etc., and those who can reciprocate with respect to team engagement, office events and other similar activities are looked upon favourably.”

In fact, candidates now expect a hybrid working model and the ability to regularly work from home. Firms have seen a noticeable increase in the number of people relocating, often interstate, and continuing to work remotely in their existing role.

For their part, employers are looking for soft skills, including the ability to communicate financial data in a way that non-finance stakeholders can understand, which tops the list. Business partnering skills are also desirable, Smith says.

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Why KPIs are required for Government Institutions

Iranthi Perera-FCA,ACMA,DISSCA,MBA

Every business should measure the performance of its goals that are set with the objective of achieving the organization's vision and mission. This measurement assesses the achievement of goals and objectives both qualitatively and quantitatively with the related actions that were implemented. There are various frameworks that could be used for measurement and the chosen framework should have the features of effectiveness and efficiency in optimizing the use of available resources. Using a competent framework, the organization can strive to improve its performance against set goals and objectives.

Profit-oriented businesses traditionally used only the financial approach. This approach was elementary and uncomplicated and used to measure financial performance. Traditional performance measures, which were developed for costing and accounting systems cannot be practiced for all business entities, in particular for nonprofit entities due to its prejudice and elementariness. Due to the deficiencies of this approach, it was progressively converted in to the modern performance measurement system, which looks at the overall picture in terms of both the financial and non-financial perspectives of a business entity.

A nonprofit organization is a business entity which is presumed to further a social cause and provide a public service. Government institutions are classified as non-profit entities as their primary motive is to provide a public service for the community. Irrespective of whether it's a ministry, board, corporation or a secretariat, they have to operate within the scope of their establishment in running the activities, always referring to the rules and regulations of government policies to serve the public for their wellbeing.

Government institutions are exclusively responsible for the social welfare and development of the community. A Government is elected by the votes of constituents of a country, and accountable to publicize the results of their actions as well as the decisions they have taken to serve their purpose of establishment. On the other hand, public and other stakeholders are entitled and privileged to enquire the performance outcomes of the government decisions and actions. There should be a method for official inquiry by constituents and other stakeholders unless the performance results of these institutions and officers cannot be overseen. To publish the performance results of all government institutions, they must carry out periodic reporting of results in the form of key performance indicators (KPIs) independently and transparently. Therefore, setting, understanding and evaluating KPIs are compulsory. The absence of KPIs may indicate the government is unable to fulfill their commitment to the public about its responsible spending and transparency. It will also lead to the public being unable to verify if the required services are being adequately and satisfactorily performed.





Diversity of workforce, Employee retention rate, Usage of leave, Employee productivity rate, and Effectiveness of Training are a few of many HR-related KPIs for the public sector to ensure that workforce allocated to perform duties are suitable and productive.

IMPLEMENTATION OF PERFORMANCE MEASURES

Government institutions have two types of performance evaluations. One is the rating by the public as an organization that is presumed to serve the people. Second is the rating by the national government. Therefore, government institutions should attend to strategic planning considering its vision and mission, while defining its tasks by establishing performance metrics that cater to the requirements of both the public and the national government.

There are four types of performance indicators; Key result indicators (KRIs) expressing how the entity have performed in a perspective or critical success factor, Result indicators (RIs) indicating that what have done, Performance indicators (PIs) telling what to do and KPIs stipulating what actions to be taken to increase performance dramatically (Parmenter. D, 2010).

The biggest challenge in developing KPIs for government sector is to establish a logical and effective performance management strategy and then to find out common organizational goals and KPIs across different ministries and departments. Government institutions have a complex reporting structure so the selection of a proper performance management strategy and KPIs should be made attentively and thoughtfully. In establishing KPIs, it should be noted that cross organizational metrics are to be equally prioritized, together with individual entity tasks, due to the correlation between entities while

aligning the ultimate objective to the national interest of the country.

Performance evaluation metrics should have certain key features to be able to determine what is important to the success of the organization and what is the expected level of performance by attaching a target to each metric. The following steps are commonly accepted indicators to assist government entities in implementing, specifying, monitoring, and interpreting their KPIs.

01. Determine the vision and the mission of the institution.
02. Introduce a SMART & balance set of KPIs to measure the achievement and measurement of vision and the mission
 - 1.1 Leading and lagging measurements to ensure that both predictive and corrective measures to forecast and report performance
 - 1.2 Efficient and effective metrics to indicate the use of available resources and they are being optimally used
 - 1.3 Cross-sectional metrics to secure connected and related institutions goals and directions are not compromised in addressing national interest
03. Assign weights to KPIs to distinguish which are the most significant to the success of the operation of an organization. Further cross-sectional metrics should be introduced together with defining the relative importance of them to each other.
04. Regularly review the validity of the measurements to ensure that they are in line with operation strategies and mission.
05. Review these KPIs within various divisions to build accountability in every department and allow everyone to share in the success of the organization. This feedback system allows the government to ensure the chosen KPIs are balanced and adequately weighed. The frequency of review should be decided by the allocated budget and other prerequisites.

06. Introduce stretched values for KPIs. A stretched target is a high and difficult level of success to illustrate that an employee or an organization is doing their job in a satisfactory way. Stretched targets for KPIs in government entities could interpret that such entity is performing successfully. Government institutions should use this mechanism extensively for their KPIs and ensure to introduce evidence-based benchmarks for their target and stretch values.
07. Identity control objectives for baseline comparison of performance metrics. All KPIs need a baseline to be compared to.
08. Streamline KPIs in order to represent current state of an organization. Authorized officers in government institutions must ensure that they evaluate their KPIs according to trend and revised targets if any.
09. Act on the KPIs to garner full advantage from setting, reviewing, and analyzing KPIs. Develop a organizational culture to trust the KPIs when it comes to decision making.
10. Design the reward system in the organization prioritizing the ratings of KPIs. Rewards based on performance metrics would bolster an organizational culture trusting the performance development.
11. Introduce robust information management strategy to ensure the data is in quality and in adequacy as this is the cornerstone for any powerful and compelling performance management system and review of KPIs impartially and heightened the workforce motivation to trust the performance driven culture.

KPIs could be grouped to understand and assess the overall concept of the operational status of the entity. This is a significant recapitulation for the stakeholders of the government, the public, national government and international fraternity. Following are examples how the government KPIs could be grouped and illustrated for stakeholder understanding. Financial KPIs, Operational KPIs, Service level KPIs, Citizen KPIs, international policy KPIs and etc

Financial KPIs

Financial stability of the government impacts every citizen. Government is expected to spend its tax revenue responsibly and wisely and this aspect is scrutinized by financial KPIs. Government Revenue & Expenditure ratios, Budgeting ratio, Per Capita Income, Near-term solvency, Debt per capita, Personnel and admin cost ratio, Bond rating are significant financial KPIs to be illustrated to understand how the government is conducting its functions in financially optimum manner.

Operational KPIs

Operational KPIs aid to increase transparency and communication between public entities and citizens. These KPIs could be explained as a quality assurance program on the services delivered by the government. This is immensely cooperating in highlighting the government's responsibility to its constituents. Regulatory practices quality, Regulatory impact analysis, Consultation with affected parties, Evaluation of regulation programs, Total number of audit findings etc., are some crucial operational KPIs available for the stakeholders to ensure operational structure of the government institutions are satisfactory in operation.

Service KPIs

The primary goal of public entities is to serve the public and ensure their prosperity. To understand how public services are provisioned, these KPIs are supportive for the people to evaluate their elected government act for their prosperity. Following are some of the most important KPIs with regards to the public services. Housing KPIs, Housing opportunity index, Environmental KPIs, Passenger transportation, Waste recycling, Infrastructure KPIs, digital Infrastructure KPIs Capital projects timely and on-budget completion and etc.

Citizen KPIs for Public Sector

The relationship between citizens and governments is equal to the connection between shareholders and private



Organization leaders should educate the workforce about the reasons why performance culture should be employed and the advantages to the organization as well as the employees.

entities. The citizens must be included in the decision-making process and given the opportunity to voice their concerns. Public participation, Voter turnout, Resident satisfaction are certain KPIs that assist the public understand that they are in a position to involve in this relationship building process and assure its productivity.

Human Resources KPIs

Public sector's success completely depends on the quality of its workforce. Without a robust human resources management system, the public sector fails to proceed with their duties successfully. Diversity of workforce, Employee retention rate, Usage of leave, Employee productivity rate, Effectiveness of Training are few of many HR related KPIs for the public sector to ensure that work force allocated to perform duties are suitable and productive.

LIMITATIONS IN IMPLEMENTING PERFORMANCE MEASUREMENTS FOR GOVERNMENT INSTITUTIONS

Implementation of a performance measurement system and KPIs are undoubtedly challenging for a government entity. Performance measurement system and KPIs should be far-reaching to be effective to provide advantages. There are many challenges in the government sector that could impair the advantages arising from performance measurement system such as bureaucratic reporting structures with constant changes, lack

of operational compliance with policies and regulations, lack of confidence in performance culture, non-availability of a performance driven rewards system, lack of integration between strategic directions and budgeting, inaccurate KPIs and comprehensive information management systems.

ACTION PLAN FOR A PERFORMANCE CULTURE BUILDING

Challenges for implementing a performance driven culture should not pause the journey. There are many actions that could be implemented to flourish performance culture even in a government entity. Some actions that could be followed by the authorized officers in the organizations are;

01. Communication of advantages and values of the performance culture.

Organization leaders should educate the workforce about the reasons why performance culture should be employed and the advantages to the organization as well as the employees. Alignment of the culture to the organization's vision and mission should be clearly informed and the leaders' commitment and focus towards the proposed culture needs to be emphasized.

02. Strengthen positive attitude

Promoting a positive and creative attitude in employees is essential. Performance based rewards systems should be introduced to convince employees that they can benefit only based on their performance levels evaluated against the allocated KPIs. Therefore, the positive behavior of employees should be reinforced by leadership in such a way that motivates employees to work more productively thereby increasing their self-esteem.

03. Encourage open communication

Open communication systems help to develop trust and creates a healthy workplace atmosphere. There should be a clear line of communication with an unbiased and open conversation no matter the topic of discussion.

Effective leaders will ensure the flow of information is smooth from the top-level to bottom-level employees.

04. Empower Employees

Employee empowerment instead of micromanaging them improves the accountability, better customer service, job satisfaction, faster problem resolution and improved processes and procedures. When employees trust their leaders and are encouraged to make decisions, it will positively impact them. Employees are more engaged and perform better when they feel empowered. The successful leaders enable employees to reach their full potential by communicating a clear vision, creating a culture of trust, and providing training and development for professional growth.

05. Collect Feedback

Feedback promoting culture is healthy for a successful performance driven culture. Transparent and honest feedback will help the management to learn how employees feel about the company's culture and share opinions on anything that needs improving and to take corrective actions.

CONCLUSION

At present Sri Lanka is facing a dire economic crisis which could be aggravated severely in months to come as per the experts' forecasts. The country has lost direction and the public is ignorant to address issues strategically. The education system, judiciary system, health system and almost all other systems have gone haywire. People hardly trust law and order due to lack of transparency. The international fraternity has no faith in the systems of the country. A significant cause for this crisis is due to the country not having a responsible and accountable governance system for the prosperity of the country as a whole but having certain narrowed aspirations that are of a selected group of people. The country is now suffering with indebtedness with inflation increasing rapidly. Social unrest has erupted in pockets. As per National

Consumer Price Index (NCPI), Headline inflation for March 2022 is 21.50 %, year over year while the Core Inflation is 17.30% which is resulting in hardship for the majority of people.

Throughout the years, under various leaderships, hardly any action was taken to enhance the productivity of the government entities with their direction being unmonitored and unmanaged. Goals and objectives were not aligned to the core needs of the country and the entire direction was disorganized causing the country to fall into a debt trap as well as moving towards bankruptcy.

Origin of the crisis could be many, but this could have been prevented if the

country was prudent to implement proper performance management systems together with a comprehensive monitoring and action system for all government institutions. This was indeed a need for the country perhaps from the time of independence from the British. If this mechanism was implemented and performed effectively in all sectors of the government in a transparent and independent manner, Sri Lanka would not have gone in to this crisis even with the covid-19 pandemic.

The famous quote, "Better late than never but never late is better" is rightly applicable for the country as it addresses the current dire situation to bring about a positive transformation.



THE TASK OF A MANAGEMENT ACCOUNTANT

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Introduction

The fundamental role of a management accountant is to assist the management of a company to secure better results in decision making in their day-to-day planning, controlling and interpreting information. A thorough knowledge of Management Accounting is very essential for the management accountant. Johnson and Kaplan (1987) stated that management accounting systems evolved to encourage and assess the efficiency of internal processes and not to measure the overall profits of the organization. Drury (1996) avowed, that further advances in management accounting were associated with the scientific management movement.

Planning is an integral process of an organisation that sets targets, ensure sound policies are in place, determine alternatives as required and deciding on the best course of actions to help an organisation achieve its objectives. A management accountant can greatly help to facilitate the planning process based on past results and by forecasting future results.

Software tools could also be used to determine future estimates. Tools such as **standard cost control** and **budgetary control** are useful in controlling costs and future performance. A management accountant needs to have a thorough understanding of the various tools of Management Accounting if he is to be successful in his role. Use of soft skills and hard skills becomes relevant for the Management Accountant. She should

preferably have a degree or professional qualification in management accounting. Soft skills, such as being able to work in a team, good communication skills especially in the English language, critical thinking, a positive attitude and a good work ethic are also necessary to be successful in the role. The management accountant should also acquire the skill of being able to analyse and interpret performance of an organisation.

The management account should also be aware of new and developing reporting concepts such as **Integrating Reporting**. An Integrated Report is a concise communication about how an organisation's strategy governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. The report should be reliable and acceptable to users. If the reported information had been erroneous, as mentioned in one of my earlier articles

("Trust of a Management Accountant"-CMA Journal 2 of December,2017), it will be difficult to continue holding the trust of the management. A management accountant should have analytical skills be able to properly present and communicate information which will go a long way in building trust with the management of the organisation.

“It is important for a Management Accountant to acquire knowledge of Information Technology (IT) to enable efficiencies in the submission of management information.”



PREPARATION OF A SOUND INTEGRATED REPORT

Planning and preparation of an Integrated Report should start at the beginning of the reporting period.

However, it may be necessary to ask the following questions to be successful in preparing a good report.

Who is responsible for the reporting process?

Who will contribute information?

Who will collect/collate it?

Who will write the Report and submit for approval?

Who will finally design, typeset & publish it?

What Reports to be included in line with IIRC guidelines?

What framework that will guide/influence the Report?

What Regulatory / Legal requirements?

What information and data to be collected?

What information to be assured internally/externally?

How will the Integrated Report be structured?

How will material matters be identified?

How will accuracy & reliability be assured. e.g. KPI internal & external sources?

How will timely information be available to include without delay?

How will the Report be released e.g. Printed in hard copies, digital or both?

When does the reporting process commence and end?

When does the 1st draft be made available?

When does the final draft be made available?

When does the Management expect the final report to be available?

Proper planning throughout the process will enable all vital information to be included in the Integrated Report.

IMPORTANT MATTERS TO BE CONSIDERED ON AREAS OF COST MANAGEMENT

The fundamental aspect to be understood is that use of management accounting knowledge lies entirely on a **sound costing system**. A knowledge of cost & revenue coding becomes essential. Costs relate to object, function or service.



The tasks of a management accountant in the reporting process, application of relevant cost methods depending on the organization, pricing, decision making, planning and control, strategic management, and acquiring relevant skills to respond to line & top management is very essential if she is to be successful. ”

More indirect overhead costs may require use of **Activity Based Costing (ABC)** which solve the problem of allocating overheads to the products. According to an article on “A choice or Blend” by Gary Collins, ABC can be used strategically to better understand sources of what drives product, service line distribution channel and customer profitability. The need for tracing, not allocating costs and activity-based costing (ABC), resolves “tracing and assigning” expenses based on cause-and-effect relationships for how products consume work activities, which in turn consume the expenses (Gary Collins).

INVOLVEMENT IN PRICING DECISIONS

This may range from ascertaining a simple simulation model for pricing product to Budget-based pricing model.

- The first method on a simulation model is based on determining the break-even-gross profit % (Gross Profit/Sales) which will cover all administrative, selling, finance costs & other costs. To this is added the markup % required by the management to determine the price of a product.
- The second method is based on **budgeted capital turnover** ie. Total Capital employed/ Total Annual Costs as a percentage multiplied by **Budgeted Return on Capital Employed (BROCE)**
 - Budgeted Capital Turnover=

Capital employed/Total annual costs

- Budgeted Return on Capital Employed = Profit before tax/ Capital employed

Therefore Price- markup as percentage of total costs = (a x b) %

A management accountant can help in determining lowest price of product through proper costing techniques.

DECISION-MAKING PROCESS INVOLVEMENT

This concerns the future and involves choice between alternatives. In decision making, both qualitative and quantitative aspects have to be considered. Past costs and revenues are only a guide to the future and irrelevant for decision making. Only costs or revenue that alters as a result of a decision on alternatives has to be considered. In the short run it is assumed that fixed costs do not change. Hence **Marginal Costing** could be applied. On the other hand, if fixed costs change in seeking decision alternatives, **Differential Costing** can be applied. In **Marginal Costing principles** we apply the contribution benefit i.e., revenue less variable costs. In **Differential Costing principles**, we seek the change in revenue against change in costs. Further we have to consider another aspect such as **Opportunity Costs** in decision making process. Here we have to consider the foregone opportunity costs/revenue in taking the particular decision ie. there can be another alternative costs/revenue, which has to be deducted in arriving at the final decision. Another costing measurement to be considered known as **Throughput Accounting**, where the material costs become a significant cost and all other costs are considered fixed and do not change. Eg: electricity generation in the power industry. The fuel cost is a significant cost in generating electricity. Revenue less fuel cost gives the throughput margin. Thus, we consider the throughput margin in deciding the choice of operations of a generation plant.

APPLICATION OF COST METHODS

Various types of costing methods differ depending on the nature of an Industry. These methods range from job costing, batch costing, contract costing to process

costing. Therefore, the Management Accountant should be expected to know the type of management accounting techniques to apply in his organization.

Gary Collins questions which of the following Management Accounting Techniques should one apply?

“Standard Costing, Project Accounting, Job Order Costing, Economic Value Added TM, Balanced Scorecard, Activity Based Costing, Intellectual Capital, Performance Pyramid, Business Excellence Model, Customer Profitability, Strategic Management Accounting, Strategic Cost Management, Supply Chain Costing, Cash Flow Return on Investment, Business Models, Target Costing, Kaizen Costing, Lean Accounting, Life Cycle Costing, Value Added Analysis, Process Costing, Time based Activity Based Costing, Value engineering, Stock Options, Micro Profit Centres, Quality Costing, Non-value Added Cost, Human capital, Resource Consumption Accounting, Structural Capital, Relationship Capital, Brand Value, Total Cost of Ownership, Throughput Accounting, Triple Bottom Line, Beyond Budgeting, Risk-adjusted Return on Capital at Risk.”

BUDGETARY CONTROL APPLICATIONS

Usually management accountants adopt an annual budget (revenue and capital) which will be reviewed quarterly along with the Management team. However, it is best if information is coupled with a **Dashboard** having **Real-Time Graphing** (graph changing according to variation of input data) when highlighting the information at Management meetings. In large corporates, a long-term strategic plan may have to be prepared. This will include project planning with use of databased management systems. Therefore, it is vital to understand the various applications of project planning. Possibly it may involve a long-term loan to be taken, however it is important to know that the project undertaken should generate sufficient revenue on completion at the end to pay back the loan taken. Preparation and monitoring of project cash flow becomes essential.



A RESEARCH STUDY

A research study on Cost & Management Accounting practices in Sri Lanka's Manufacturing Industry by Dr. Harendra Kariyawasam (Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Sri Lanka), revealed cost information is mainly used by public quoted manufacturing companies. In a sample of **70** companies, **32** companies used ABC, **22** companies used process costing and **16** companies used job costing. The author of the study has mentioned the main reasons for these companies to use costing methods was reduced profits followed by increased costs and competition.

Acquiring knowledge of Digitalisation
It is important for a Management Accountant to acquire knowledge of Information Technology (IT) to enable efficiencies in the submission of management information. A knowledge of Advanced Excel together with Visual Basic Application will go a long way to improve the quality of his work in internal reports

assistance to line managers on sales & revenue generated, state of receivables & payables, raw materials inventory with trend charts and variance analysis. It will also help when working as a team with non-financial personnel.

CONCLUSION

The tasks of a management accountant in the reporting process, application of relevant cost methods depending on the organization, pricing, decision making, planning and control, strategic management, and acquiring relevant skills to respond to line & top management is very essential if she is to be successful. Participation in webinars/conferences on management topics is also essential to further her career as a sound management accountant.

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KPIs for government departments, ministers, and SOEs

Indrajith Karunarathna - MBA (Sri J'), BSc. Business Administration (Special) Hons. FCA, FCMA, FMAAT, FIPA (Australia), FFA (UK), ACIM (UK), MCPM, ADCN

Private sector organizations, as well as public sector organizations, use different types of performance management systems to measure their performance and demonstrate their performance through Key Performance Indicators (KPI), which include financial and non-financial measures. These performance management systems include various methods such as the balanced scorecard approach etc. and each system includes methods to establish goals for regular recurring activities. Subsequently, it monitors the achievement of goals and adjusts to achieve those goals more effectively and efficiently. Public sector organizations use Key Performance Indicators (KPIs) for their strategic planning and decision-making process. It provides an efficient way for these organizations to report on their performance and makes different departments and institutions accountable for their actions. In order to establish an effective system of performance measurement, it is important to define and standardize all the processes within an organization.



The KPIs need to be Specific, Measurable, Achievable, Relevant, and Time-bound (SMART) and be aligned to the Strategic objectives, Corporate Plan, and Annual Budget. In this study, some of the KPIs established in the Sri Lankan public sector organizations is evaluated with special reference to Power, Economic, Aviation, Energy, and Cultural sectors which are contentious these days.

In Sri Lanka, public organizations such as government departments, ministers

and SOEs use some KPIs in their strategic planning and decision-making process. Public sector organizations prioritize different KPIs based on their established goals and objectives. Many loss-making state-owned enterprises (SOEs) are primarily service-oriented and significantly contribute to social wellbeing. The absence of a free, volatile, and competitive business environment is a prime cause for the lack

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In order to obtain the benefits of using KPIs, maintaining effective communication among all stakeholders is very important for a public sector organization that has significant involvement with the general public and the related government institutions.”

Power Sector

Ceylon Electricity Board (CEB) is one of the major corporations which operates in the public sector in Sri Lanka. Its main functions are the generating, transmission, distribution and retailing of electricity within Sri Lanka. Its KPIs focus mainly on power generation and serving the general community. The revenue generated and supplying electricity uninterrupted to meet demand are some of the KPIs established by CEB. In addition, improving the quality of electricity supply and services to customers, improving sustainable initiatives and developing a competent workforce are some of its non-financial KPIs. When compared with the private sector companies, it seems that many public sector companies focus mainly on serving the community than focusing on financial KPIs such as increasing profitability and market share.

Aviation Sector

Sri Lankan Airlines was founded in 1979 and operates under the Ministry of Transport and Civil Aviation Authority. It's established KPIs focus mainly on providing a comfortable, safe, reliable, and quality service to all levels of customers along with on-time performance. In addition, it focuses on customer complaints and baggage handling in a reliable way. Widening its global route network which covers 122 destinations in 55 countries, improving punctuality and safety, minimizing uncontrollable events such as unfavorable weather, aircraft damages due to bird strikes, airport congestion, air traffic control issues, and airport infrastructure matters, maintaining adequate yield and revenue parameters are few of the other KPIs. Together with the support of the government, Sri Lankan Airlines has been committed to achieving its objectives based on established KPIs as stated above.

Energy Sector

Ceylon Petroleum Corporation was established in 1962 and it is identified as Sri Lankan Oil and Gas Company, wholly owned by the Government of Sri Lanka. CEYPETCO is identified as one of the largest SEOs in the country. Some of its KPIs focus on profitability, liquidity,

and quality of the fuel supply whilst maintaining the safety aspects. Improving the quality and quantity of fuel imports, minimizing overhead and other operating expenses, increasing the volume of production, ensuring an uninterrupted fuel supply throughout the country, and effectively facing adverse oil price changes in the world market are some of its main KPIs.

Cultural Sector

The rate of performance at the Performing Arts Center is its one KPI. This KPI records the number of events organized. One can get an idea of the country's environment, whether it is peaceful, have support from the government, is economically stable etc., through the number of participants at cultural events. Participation of community groups at these events also offers insights of the country's social environment. One can also gauge the interest of participants subsequent to the Covid 19 pandemic through the average percentage of capacity filled at Art Centers. These KPIs further aids in measuring the quality of life of the community groups in the country and is very helpful to organize entertainment programs through municipal councils, government institutions etc. The results of the KPIs also helps to determine fund allocations from the Annual Budget and to plan the infrastructure facilities within the country to cater to demand.

Economic Sector

KPIs for economic development in a country can be evaluated in many ways; a number of employers in each municipality can be identified through job fairs, surveys, and by evaluating the increasing rate of employment opportunities. KPIs can be further analyzed to develop infrastructure facilities in districts that have insufficient employment opportunities. Identifying the unemployment rate is also highly important to recognize the age, income level or civil status of people who are not yet employed. Using the Gross Domestic Product (GDP) of the municipality, one can compute the economic production of each municipality during recent years etc. whilst adjusting the rate of inflation and developing each municipality in Sri Lanka.

Identifying the number of capital projects completed is also important to arrange sufficient funds from the Annual Budget and to complete projects. This may be needed to develop infrastructure facilities as well. KPIs can be used to evaluate customer complaints received during a month or year etc. Accordingly, the areas related to each complaint such as utility services, roads and bridges, technical development, etc., can be checked Using the poverty rate, the fulfillment of basic needs of each district in the country can also be evaluated.

Way Forward

In order to obtain the benefits of using KPIs, maintaining effective communication among all stakeholders is very important for a public sector organization that has significant involvement with the general public and the related government institutions. E-communication is one effective method that public sector organizations are using to make interactions for business dealings.

Example: using emails to share important documents. Public sector organizations should further integrate with other private/public sector organizations, associations, NGOs, and clubs in order to provide an enhanced service to the general public. In addition, it should aim to improve information sharing among internal and external stakeholders such as shareholders, management, employees, customers, suppliers, government, and financial institutions.

Compliance with statutory obligations is another KPI applied in many public sector organizations. Public sector organizations are frequently required to present their performance management reports to statutory bodies for compliance purposes. Therefore, the number of compliance reports which have been sent to the relevant statutory body on a quarterly basis can be used as a KPI. Through this KPI, the public sector organizations are expected to maintain their accountability, better performance of employees, and management behaviors. Some of the public sector organizations use KPIS such as ensure the value of service provided and to attract skilled employees to identify

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The public sector organizations are frequently required to present its performance management reports to statutory bodies for compliance purposes. Therefore, the number of compliance reports which have been sent to the relevant statutory body on a quarterly basis can be used as a KPI.”



its employee satisfaction and retention. Public sector organizations should aim to create a high-performance-driven culture and link their employees' personal goals with strategic objectives. The employees should also be informed of their role within the larger organization's strategy. Managing the budgetary resources is one KPI for the public sector organizations which depends on external funding. This KPI is used to monitor budgetary performance.

Conclusion

Setting KPIs are different for the public sector from private sector organizations due to concerns of social welfare, economic, environmental and human development in a country as a whole unit. The public sector organizations must embrace the corporate social responsibility perspectives. Therefore,

it becomes vital that the public sector organizations focus on qualitative factors rather than profit-based achievements. These KPIs are established mainly to measure the performance of public sector organizations. It's true that setting KPIs, following them, and monitoring and adjusting the changes are challenging for public sector organizations due to the cultural issues and political involvement. But those challengers should be defeated to make the public sector organizations profitable in financial terms as well. The efficiency of the internal processes of a public sector organization is focused on KPIs. For this, the 'Balance Score Card' approach can be recommended as the most effective method for the public sector organizations as it evaluates many aspects by using KPIs.

It's also understood that government performance management is

multifaceted. The data sources should be made available for government decision-makers. However, these data sources with their multitudes of measurements may not be relevant to improving government performance in pursuit of policy objectives. That's why relevant KPIs are fundamental for public accountability since their objectives are often focused on achieving broad public outcomes. Many outcome measures are revealing in that they track the overall effect and the actual results of its activities. However, all the public sector organizations are compelled to move toward a new paradigm of performance in the future. Hence, it is suggested that the public sector organizations should achieve significant performance through well-constructed KPIs which will further ensure value for money.

CASH TO ACCRUAL: WHAT DOES THE GLOBAL PUBLIC SECTOR SHIFT MEAN?

By Gary Anders

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After the best part of three decades, there is some hope, representing the shift by governments around the world from cash to accrual accounting.

At a glance

According to recent research, about 50 per cent of governments will have transitioned to reporting on an accrual basis by 2025.

Countries such as Australia, New Zealand, the UK, France and Canada have been reporting purely on an accrual basis since the 1990s, and the momentum for adoption of accrual accounting has been building steadily.

The push is being driven by more calls for transparency from governments around budgeting and spending.

At the most fundamental level, the difference between cash and accrual accounting is when revenue and expenses are recognised in the financial accounts.

Cash accounting books revenue at the time it is received and as an expense when money is paid out. As such, revenue earned in one financial year may end up being reported in the next financial year's accounts. The same goes for expenses. Accrual accounting books revenue when it is actually earned and as an expense when it is incurred. In other words, revenue and expenses are booked in real time rather than deferred.

As such, accrual accounting effectively produces a clearer and more accurate picture of an organisation's financial position at any point in time. This increased transparency is particularly important for the public sector.

In a **status report** released last year, the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) have forecast that 50 per cent of governments will have transitioned to reporting on an accrual basis by 2025.

The joint report is based on the **International Public Sector Financial Accountability Index**, which captures the current and future use of public financial reporting bases and frameworks from 165 government jurisdictions around the world.

Momentum for accrual is building. As at the end of 2020, about 30 per cent of governments globally were reporting on an accrual basis.

Australia, New Zealand, the US, the UK, France and Canada are among the early adopters of accrual accounting and have been reporting purely on an accrual basis since the 1990s.

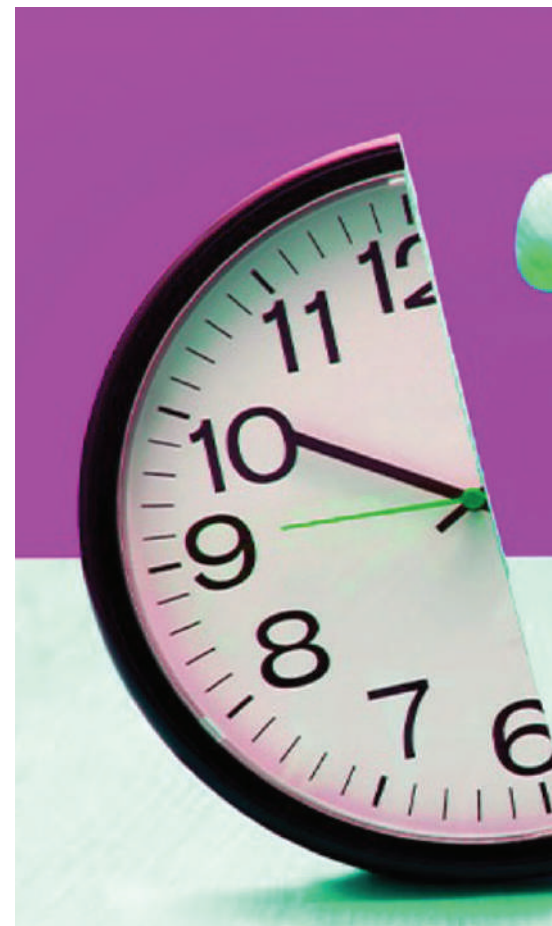
Other countries have been slower off the mark, but the list has been growing steadily since then.

Many European countries have moved to accrual basis accounting by now, although Germany, the Netherlands and Norway remain notable exceptions and currently appear to have no immediate intention of switching from the cash accounting method. Other countries in the region have indicated they intend to move from partial accrual accounting to full accrual by 2025.

Elsewhere, momentum for accrual adoption over the next few years

is building. There are currently 17 jurisdictions in Asia, 15 in Latin America and the Caribbean, and nine in Africa in line for accrual accounting adoption by 2025.

However, while Japan, Hong Kong, South Korea and Indonesia have already made the shift to accrual accounting, other significant Asian economies, including India and Singapore, appear to be wedded to cash basis accounting at this



stage. Thailand is intending to continue using a partial accrual accounting model, while Vietnam has indicated it intends to move from partial to full accrual in the near future.

Behind the public sector accrual push

Greater government transparency around budgeting and spending, and hence greater accountability, are core elements in the global push for governments to adopt accrual accounting.

Using accrual basis accounting will also give a government direct oversight over its balance sheet liabilities, such as the amounts being spent on long-term infrastructure projects.

Then there are the large amounts of capital governments are required to hold in order to cover public servants' annual leave, superannuation and pension liabilities.

"By providing a comprehensive view of government finances, accrual reporting helps ensure that expenditure of public

“Using accrual basis accounting will also give a government direct oversight over its balance sheet liabilities, such as the amounts being spent on long-term infrastructure projects.”

funds is transparent, public officials are held accountable, and future liabilities are recognised officially and planned for properly," IFAC and CIPFA state.

"With governments under more financial strain than ever following the huge levels of pandemic-related expenditure, understanding the overall picture and making the best use of the remaining resources is crucial to long-term recovery.

"Accrual-based accounting is essential in helping governments mitigate

corruption, improve trust and transparency, and deliver desired outcomes that communities deserve and need in the post-pandemic world."

— International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy

"Accrual-based accounting is essential in helping governments mitigate corruption, improve trust and transparency, and deliver desired outcomes that their communities deserve and need in the post-pandemic world."

Kevin Dancey, CEO at **IFAC**, adds that the continued shift from cash to accrual reporting in the public sector "will be crucial to governments globally in making the tough choices they face following the pandemic".

This will necessarily include increased usage of international accrual-based accounting standards developed by the International Public Sector Accounting Standards Board (IPSASB).

Almost 60 per cent of governments that reported on an accrual basis in 2020 used **International Public Sector Accounting Standards** (IPSAS) either directly, indirectly or as a reference point.

It is expected that, by the end of 2025, nearly three-quarters (73 per cent) of governments that report on accrual will use IPSAS in one of these three ways.

"Professional accountants have a critical role to play in delivering the full potential benefits for citizens worldwide in terms of decision-making, transparency and accountability," Dancey says.

He notes that, in addition to the support of regional and international organisations, effective implementation of accrual accounting relies on the skills of public sector accountants to interpret the richer, more comprehensive data.

"As more governments move to accrual, the need for public sector accountants will increase correspondingly."

Malaysia's accrual accounting transition gathers pace

The Malaysian Government began accounting for transactions on an accrual basis in 2018, but so far the country



has not officially implemented accrual accounting.

The reason for that is fairly simple. Transitioning from cash to accrual accounting on a national public sector level is a mammoth task.

“Malaysia has made great progress in its efforts and actions in transitioning towards financial reporting based on the accrual principle,” says Datuk Dr Yacob Mustafa FCPA, accountant general of Malaysia.

The Malaysian Government currently prepares accounts using both cash and accrual reporting.

“The accrual-based financial reporting is presented at the ministries level as a management report to support the official federal government financial statements prepared on a cash basis,” Mustafa says.

“However, from the legal aspect, amendments to the acts related to financial reporting have been implemented and are in the process of being tabled in parliament for approval.”

Mustafa says Malaysia’s journey towards implementing accrual accounting started 10 years ago, when it was placed as one of the agenda items in the Public Sector Transformation Policy measures under the New Economic Model 2011-2020.

To get to where it is now, and to ensure a smooth implementation, Malaysia has taken four main steps – developing standards and policies, reviewing and drafting amendments to laws and regulations, upgrading process and technological capabilities, and developing and empowering human resources through change management initiatives.

Mustafa says various stakeholder engagement activities have been put in place, including getting buy-in and support from relevant authorities and driving change through government departments by emphasising the importance and benefits of switching to accrual accounting.

“Ultimately, the support from relevant authorities and the cooperation from personnel have contributed as success factors in maintaining the momentum during the transition and materialising the implementation of accrual accounting.



“ Kevin Dancey, CEO at IFAC, adds that the continued shift from cash to accrual reporting in the public sector “will be crucial to governments globally in making the tough choices they face following the pandemic.” ”

“In order to equip personnel with relevant knowledge and skills in accounting systems and accrual accounting, ongoing training sessions are conducted for the people involved.”

Until now, a total of 32 **Malaysian Public Sector Accounting Standards** (MPSAS) have been developed – primarily from IPSAS – and transformed into accounting policies.

Not without its challenges

Mustafa says the Malaysian system is being developed as centralised, harmonised, integrated, upgradable and supportive of continuous improvement.

The biggest challenge in implementing accrual accounting in Malaysia to date has been the amendment of legislation and rules pertaining to the financial reporting and accounting system, such as the Financial Procedures Act 1957 and other relevant acts.

“This step is important and necessary, as the current *Financial Procedures Act 1957* requires a cash-based financial statement to be presented to parliament,” he says.

“Therefore, relevant amendments to these laws and regulations are made to enable a set of accrual-based financial statements to be tabled in parliament.

“The benefits and advantages resulting from the pre-enacted implementation of accrual accounting have been seen significantly at the level of departments, ministries and the



Malaysian Government as a whole, especially in the aspects of asset and liability management.”

— Datuk Dr Yacob Mustafa FCPA, Accountant General of Malaysia

“The challenges of developing an accounting system that implements accrual-based transaction processing and reporting, while meeting cash-based reporting requirements based on the current legal framework, are inevitable.”

One such challenge concerns the development and enhancement of both accountants’ and administrative skill sets. About 1000 government employees from across different ministries have undertaken training sessions on the new Malaysian accounting policies and on how to use the government’s accrual accounting system.

They have then been tasked with training about 73,000 other users throughout Malaysia.

A clearer financial picture in Malaysia

Until amendments to all relevant acts are approved by the Malaysian Parliament,

accrual-based financial statements are being categorised as “management reports”.

“These compulsory accrual-based financial statements, which have been prepared at the ministries and federal government levels, have been used as a reference by the government’s top management to obtain an overview of Malaysia’s performance and financial position,” Mustafa says.

“The benefits and advantages resulting from the pre-enacted implementation of accrual accounting have been seen significantly at the level of departments, ministries and the Malaysian Government as a whole, especially in the aspects of asset and liability management.”

Mustafa says additional information available from the accrual accounting system has provided a broader picture of public financial sustainability in Malaysia.

“Fiscal aggregate analysis can be performed from various angles based on the true depiction of government operations, taking into account the liquidity of assets, commitments for current and non-current liabilities as well as the real snapshot of financial performance and position, measured under fair value convention.

“The comprehensiveness of financial reporting under the accrual concept contributes towards better transparency, which produces improved decision-making on public policy planning and resource utilisation, thus supporting the establishment of good governance and excellent public service delivery.”

Bridging the accounting gap

The implementation of accrual accounting by the federal government of Malaysia has bridged the gap between accounting practices in the private sector and the public sector, which, according to Mustafa, has had a positive impact on the marketability of public sector accountants.

Furthermore, the accounting and financial reporting approach under MPSAS, which is similar to the practices under the Malaysia Financial Reporting Standards (MFRS), offers additional value to public sector accountants in providing their services as

facilitators to the private sector.

“In fact, public sector accountants have an advantage in terms of a large-scale implementation framework with a variety of forms of transactions that may not be available in the private sector,” Mustafa says.

“Thus, there is no doubt that the implementation of accrual accounting is a very good and strategic step to elevate the accounting profession in the public sector.

“The implementation of accrual accounting has also paved the way for increasing the number of public sector accountants with professional qualifications.”

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Corporate Environment Disclosures of Public Listed Companies in Sri Lanka

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Abstract

Increasing dynamic environment matters forced companies to practice different approaches to corporate decision making and communication. Corporate Environment Disclosures (CEDs) are considered a medium of communication to the stakeholders about the impact of the organizations' actions on the environment. In this context, this study aims to examine the level of CEDs and to investigate the differences in CEDs based on the industry type of Listed Companies in Sri Lanka. The study employed a quantitative approach with the primary data. The study gathered data (i.e., 2015 - 2019) from annual reports of Sri Lankan companies listed in the Colombo Stocks Exchange based on a constructed CED index developed based on Global Reporting Initiative (GRI). t-tests were employed as the analytical technique and findings from the selected samples of Public Listed Companies in Sri Lanka suggested that over the years from 2015 to 2019, lower levels of CEDs were observed, and further results revealed that level of CEDs in the categories of Effluent and Waste, Water, Material, Biodiversity, Supplier Environmental Assessment shows relatively a lower than Compliance Category. Moreover, this study concluded that there is a difference in the level of CEDs based on the industry type. The empirical

evidence of this study reiterates the need to develop and implement mandatory environmental disclosures in Sri Lanka. The findings of this study provide much-needed insights to the companies operating across similar industries and provide highlights to the organizations to evaluate their practices which would help to measure their efforts.

Keywords: *Corporate Environment Reporting, Global Reporting Initiatives, Listed Companies*

1. INTRODUCTION

In a world, natural resource constraints, climate change, environmental pollution, and other environmental pressures have increasingly demanded and forced companies to practice different approaches to corporate decision making and communication. Increasing dynamic environment matters are not incorporated in the traditional annual reports, therefore, they do not provide a complete picture of an organization's economic progress (Busco, et al., 2013). Corporate environmental disclosure (CED) is defined as the medium to communicate information about an organization's environmental policies, activities, and performance to external parties and that has become an important source of insights into the efficiency and effectiveness of corporate sustainability strategies (D'Amico et al., 2016; Deegan, et al., 2002).



**“
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Disclosures (CEDs) are
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Shahab et al. (2020) stated that CED needs to include crucial environmental matters and their influence on businesses’ future position and performance, uncertainties and risks, material items of expense or income, and environmental policies. Accordingly, environmental reporting and disclosure practices are considered a means of communication to the stakeholders about the impact of the organizations’ actions on the environment.

There are differences in terms of environmental disclosures in annual reports in both developed and developing countries (Deegan and Gordon, 1996; Kolk, 2004; Belal et al., 2010; Jariya, 2015; Mohmed et al., 2019; Agyei and Yankey, 2019; Albitar et al., 2020; Salem et al., 2020; Gerged et al., 2021). Previous studies have been conducted in a developed world context (Iatridis, et al., 2013) although severe environmental challenges are

being experienced in many developing contexts, where the disclosures on the CEDs might be different as requirements and responses from the stakeholders are different.

In this context, this study investigates the level of CED and to what extent these companies have complied with the environmental reporting standards introduced by Global Reporting Initiatives (GRI) in the preparation of annual reports. Accordingly, the study focused to address two research objectives. First, in terms of Listed companies in Sri Lanka, to examine the Level of Corporate Environment Disclosures, and the second is to investigate the differences in Corporate Environment Disclosures based on the industry types of those companies.

Although there is an intensification in voluntary disclosure practices across the globe (KPMG, 2013), many scholars mentioned that CED is still an underexplored research area (Alsaheed, 2006; Al-Gamrh and Al-Dhamari, 2016). This study adds a new dimension to the CED in the Sri Lankan context. Stakeholders are the parties who impact and influence the organization. Companies disclosing environmental information is to hold companies accountable for their environmental stewardship. Environmental disclosures fulfilling the information needs of the company for investors, shareholders,

customers, and other parties.

Moreover, the study is perceived to be practically important since the findings promote the adaption of CED practices. Accordingly, the study sheds light on stakeholders including companies, regulators, policymakers, marketers, competitive firms, and society to evaluate the companies’ environmental responsibilities by examining their CED practices.

The rest of the paper is structured as follows; Section 2 introduces the theories and the relevant literature used to develop the study’s hypotheses. Section 3 explains the methods used in the study. Section 4 outlines the results and discussion and conclusion and recommendations provided in the final section.

**“
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2. LITERATURE REVIEW

Corporate Environmental Disclosure (CED)

Litic (2008) explained that Environmental reporting is an external tool that communicates a company's environmental performance, and decision-making for shareholders and an internal communication tool that communicates organizational behaviour. Therefore, this is considered a significant tool for environmental communication and for fulfilling organizations' accountability regarding the environmental burden.

Suttipun and Stanton (2012) explained that environmental disclosure is used as a medium of reflecting the issues and responsibilities of an organization through triple bottom line reporting, Global initiatives, Environmental management systems, etc. Therefore, this is considered a sign of transparency of credibility for organizations, which helps and attracts stakeholders, and its links with the reputation of the company.

Theories

Legitimacy Theory

According to legitimacy theory, the existence of an organization is justified if its stakeholders perceive it as legitimate because it appears to conform to social norms, values, and expectations within a kind of implicit social contract (Ashforth and Gibbs, 1990; Deegan, 2002). Legitimacy theory relies on the theoretical notion of a social contract which is equivalent to a community license to operate. Thus, a Company hopes to justify its continued existence by legitimizing its action via disclosure (Jantadej and Kent, 1999). Corporates disclose the environment not only to improve the firm value but also to reduce the legitimacy gaps and operational risks (Nuskiya et al., 2021). Thus, the study adopted the Legitimacy theory in undertaking the study. Further, the theory is also useful to explain the change in the business environment and societal values with the organizational reactions (Deegan et al., 2002; Vourvachis et al., 2016).

Stakeholder Theory

An organization's primary intention is profit maximization and recognizes value creation utilizing the relationship between an organization and its stakeholders (Donaldson and Preston 1995). Eccles and Krzus (2010), highlight that the reporting made by the companies would approach environmental, social, and governance issues that are considered to influence the value of the company. The basic proposition of the stakeholder theory is that the firm's survival depends on its successful management of relationships with stakeholders. The reason for adopting the stakeholder theory in this study is, that corporate transparency must be expanded to areas such as social and environmental aspects of corporate behaviour, and it must be presented in an integrated form. Further, scholars argued that CEDs enhance the relationship between the company and its stakeholders (Nuskiya et al., 2021). Thus, the study accommodated the Stakeholder theory.

Empirical Studies and hypotheses development

Level of disclosures in Corporate Environment Disclosures (CEDs)

Pramanik et al. (2008) concluded that the accounting and reporting practices in respect of environmental issues have become mandatory in different countries such as Denmark, Netherland, Sweden, Norway, etc. However, organizations voluntarily disclose their information in many countries such as (i.e., Hong Kong, Malaysia, Sri Lanka, etc.). Further, scholars stated that there is an urgent need to formulate rigid rules and form the standards to enact the reporting guidelines globally and nationally for the long-term sustainability of the environment. Siddique (2015) studied CED practices in Australia and highlighted that companies that meet regulatory thresholds on energy, carbon emission, etc. are required to disclose on the environment. However, the scholars found that companies that fall below regulatory thresholds did not provide CEDs. Regarding the developing context, Orazalin and Mahmood (2019) stated that

there is a lower level of CEDs due to the absence of a mature investor-oriented market. Regarding the Asian context, Wijeyakumara et al. (2020) conducted a content analysis covering 20 sectors of Public Listed Companies in Sri Lanka and concluded that the overall level of CEDs is at a lower level for those companies. Moreover, the scholars found that the plantation sector depicts the highest level of CEDs while the investment trust sector depicts the lowest level of CEDs.

Differences in Corporate Environment Disclosures across industries

Aerts et al. (2006) studied the Intra industry imitation of CEDs from an international perspective. The findings suggested that firms' imitation of other firms' CEDs within their industry is determined by the tendency of other firms within the industry to imitate one another. Therefore, the overall results consistent within the industries.

Based on the developed context, Stray and Ballantine (2000), studied the sectoral comparison of CEDs in the United States of America (USA) and conclude that some companies in the industry produce separate environmental reports by considering all the aspects of the environment and also sectorial differences are reported where appropriate, for all aspects that are considered.

Based on the Sri Lankan perspective, Sameera and Weerathunga (2014), studied environmental disclosure practices of the manufacturing industry and found that the level of environmental disclosure by Sri Lankan manufacturing companies is at an extremely low level. Likewise, Matakanye et al. (2021) analyzed Environmental, Social and Governance Sustainability Performance (ESG-SP) in different industry companies and revealed that there is no such evidence of ESG-SP differences across industries also concluded, that the industry type does not have a significant role in determining the ESG-SP rating of a company. Further, scholars interestingly stated that the degree of CEDs influenced by industry classification (Jariya, 2015; Nuskiya et al., 2020).

Based on the above discussion following hypothesis is developed to address the first objective.

H1: There is a difference in Corporate Environment Disclosures based on the industry types

Research Gaps

Prior studies adopted various theoretical perspectives to examine Corporate environmental reporting and its disclosures with theories. Also, many scholars argued and emphasized the necessity of the shift from voluntary disclosure requirements to mandatory disclosure requirements. Therefore, this study helps from the perspective of Legitimacy theory and Stakeholder theory.

Most of the prior studies highlighted Corporate Environmental Reporting as an emerging issue (Islan et al., 2020; Pramanik., 2008). Although many scholars have studied CEDs, there is a dearth study on the level of CEDs and the industry-wise comparison in it. Therefore, this study sheds and gives importance to the level of CEDs in Public Listed Companies and the level of disclosures across the industries in Sri Lanka.

3. METHODOLOGY

The primary objective of this study is to investigate the level of CED of Public Listed companies in Sri Lanka. The study also attempts to investigate the differences in environmental reporting across industries. The study is pitched in the positivistic research paradigm and followed a quantitative approach to assess the level of CEDs and the difference among industries, which is deemed appropriate.

The population of the study was drawn from Sri Lankan publicly listed companies, registered on the Colombo Stock Exchange (CSE) from 2015 to 2019 (i.e., 291 companies in total). This study includes 205 observations related to 41 sample companies. The study collected data (i.e., 2015 – 2019) from annual reports based on the CED index developed by prior scholars (Nuskiya et al., 2021). According to the scholars, the CED score was developed to quantify CEDs by calculating a disclosure

score to a company, using the specific environmental items of GRI guidelines. Further, the disclosure of each aspect was measured using disclosed/not disclosed (0/1) scoring (See Appendix 1).

Within the Sri Lankan context, CSE follows a 20 sectors classification, this study has taken 41 listed companies for the study, which are the only companies that adopted the GRI reporting framework to publish environmental responsibility information from 2015 to 2019. These companies are categorized as high profile (2) and Low-profile companies (1) based on their environmental sensitivity. Environmental sensitivity is measured in terms of consumer visibility, level of political risk, and concentrated intense competition (Burgwal and Vieira, 2004).

Diversified financials, Banking, Insurance, and consumer services sectors are considered low profile industries whereas materials, capital goods, Food beverage, tobacco, healthcare equipment and services, consumer durables and apparel, retailing, energy, and utility sectors are considered high-profile industries. Out of 41 sample companies, 21 represent

low profile and the rest represents high-profile industry companies. The level of disclosures is operationalized based on GRI Index and prior studies (Nuskiya et al., 2021). Data were collected based on categories of CED such as Material, Water, Energy, Biodiversity, Emissions, Effluent and Waste, Compliance, Supplier environmental, and Assessment. Mean ranking and One Sample t-tests were performed to assess the level of CEDs (year-wise and category-wise). Then independent sample t-tests were performed to investigate the industry differences (i.e., High-profile industry and low-profile industry).

4. RESULTS AND DISCUSSIONS

Firstly, the study calculated the mean and conducted one sample t-test to assess the average level of CEDs over the past five years (i.e., 2015 – 2019) and the year-wise level of CEDs (See Table 1). Accordingly, Table 1 indicates, the percentage of CED from the year 2015 to 2019 disclosed in the corporate annual reports.

Table 1: One sample t-test of Level of CEDs

	Mean (%)	Std. Deviation
Average	42.87**	22.26
Year		
2015	40.75**	28.84
2016	43.76	29.54
2017	42.44 *	26.42
2018	43.86	25.37
2019	43.54*	24.36

Note: Based on the one-sample t-test performed, the significant difference between the test value of 50 (mid-value) and the mean values were also indicated, where $p < 0.10^*$, $p < 0.05^{**}$ and $p > 0.01^{***}$

Source: The author constructed

The overall mean value ranges from 40% to 44% over the past five years from 2015 to 2019, the average mean value indicates 42.87%, and the standard deviation ranges from 24% to 28% and an averagely of 22%, which indicates there are not many differences in disclosures made by selected companies over the 5 years, Companies were almost given the equal importance in making CEDs over the time. It is interesting to note that although corporates averagely disclose

the environment with a mean value of 42.87%, which is below the test value of 50% by 7.13%. Further, the result is also statistically significant at 5%. Thus, there is a lower level of CEDs over the past five years on an average basis.

Moreover, the study also further analyzed CEDs every year from 2015 to 2019. There is sufficient statistical evidence to support that the lowest level of CEDs reported in 2015 with a mean value of 40.75% which is below the test value of 50% by 9.25%.

the result is statistically significant at 5%. Although the highest level of CEDs reported in the year 2018 (Mean value = 43.86), there is no statistically sufficient evidence to support that the CEDs are below the test value. In addition, 2017 and 2019 displayed a lower level of CEDs 42.44 and 43.54, respectively, which are statistically significant at 10% (Mean difference of 7.56 and 6.46, respectively).

It is observed that this mean value is relatively low compared with other countries. For instance, environmental voluntary disclosures of listed companies have increased over time by an average of 68% of analyzed indicators in Saudi Arabia (Bonshnak, 2021). Likewise, based in India, CEDs analyzed among multinational and domestic Agrochemical corporations and suggested that each of the adapted items is increased over time (Jessop et al., 2019). Thus, the discussion suggests that Sri Lankan listed companies are still at the early stage of adapting CEDs and possess a long way to improve.

Then the study further analyzed the level of CEDs in terms of categories (See Table 2). Categories used for the analysis are Material, Energy, Biodiversity, Emissions, Effluent and Waste, Compliance, Supplier Environmental Assessment, and Water (Nuskiya et al., 2021). It is interesting to note that the highest level of CEDs reported to the content element of Compliance with a mean value of 74.1%, the value is also statistically significantly greater than the test value of 50% with a mean difference of 24.15% at 1% significance. Secondly, the companies reported on the content category of Energy with a mean value of 50.34%, then Emissions with a mean value of 42.51%. However, the content categories of Energy and Emission show a mean value that is not statistically significant. The lowest content category that corporates reported is on Supplier Environmental Assessments with a percentage of 23.7% which is below the test value of 26.34% and the result is also statistically significant at 1%.

Table 2: One sample t-test results based on content categories

Content category	Mean (%)	Std. Deviation
Compliance	74.10***	33.84
Energy	50.34	26.70
Emissions	42.51	29.40
Effluent and Waste	39.12**	28.49
Water	35.12***	28.91
Material	33.08***	30.41
Biodiversity	27.68***	29.92
Supplier Environmental Assessment	23.70***	26.72

Based on the one-sample t-test performed, the significant difference between the test value of 50 (mid-value) and the mean values were also indicated, where $p < 0.1$ * $p < 0.05$ ** and $p > 0.01$ ***

Source: The author constructed

Thus, it can be stated that the level of CEDs in the category of Compliance is relatively higher whereas the level of CEDs in the categories of *Effluent and Waste*, *Water*, *Material*, *Biodiversity*, and *Supplier Environmental Assessment* displays relatively a lower level of CEDs. The findings indicate that listed companies in Sri Lanka need to improve their disclosures including all the environmental aspects.

In order to address the second objective, the study conducted an independent sample t-test to investigate CEDs based on industry type. Concerning the industry, it has been categorized as a low-profile industry and a high-profile industry (Nuskiya et al., 2021). Table 3 displays the results of the analysis.





Table 3: Independent sample t-test results based on industry type

Industry Type	Mean	Std. Deviation	Mean Difference
Low Profile Industry	43.01	25.58	0.29**
High Profile Industry	42.72	18.84	

Source: The author constructed

Low profile industry averagely disclosed 43.01% on the environment whereas high profile industry disclosed 42.72%. The results indicate that both the industry types' levels of CEDs are lower. However, there is sufficient statistical evidence to support that the level of CEDs in the low-profile industry is greater than in the high-profile industry by 0.29% which is statistically significant at 5%. Thus, the hypothesis: H1 is supported since there is a difference in CEDs based on the industry types.

The study further analyzed content category-wise levels of CEDs based on industry types. Accordingly, independent sample t-tests were performed to assess the differences in the level of disclosure of the content elements based on the type of industry and the results depicted in Table 4.

Table 4: Content category wise independent sample t-test results based on industry type

Content categories	Industry Type	Mean (%)	Mean Difference (%)
Material	1	25.71	-14.95
	2	40.67	
Energy	1	54.29	8.08
	2	46.20	
Biodiversity	1	27.14	-1.11
	2	28.25	
Emissions	1	46.53	8.25
	2	38.28	
Effluent and Waste	1	36.81	-5.62
	2	42.00	
Compliance	1	69.50	-9.48*
	2	79.00	
Supplier Environment Assessment	1	20.00	-7.50
	2	27.50	
Water	1	30.47	-9.52
	2	40.00	

$p < 0.1^*$ $p < 0.05^{**}$ and $p > 0.01^{***}$

Source: The author constructed

Based on the analysis, disclosures on the low-profile industry average are between 25% to 54% whereas, the high-profile industry mean value ranges between 30% to 80%. Results show that there is a significant difference in the level of disclosures made by high-profile (2) and low-profile (1) industries over time to the content category of Compliance (i.e., The high-profile industry discloses relatively more on CEDs under the content category of Compliance than the low-profile industry which is statistically significant at 10%).

Disclosure of the biodiversity element shows the lowest mean difference (1%) compared to the elements and the material element shows the highest mean difference (14.95%). And the results show that companies operating in high profile industries disclose more on *Material*, *Biodiversity*, *Effluent and Waste*, *Compliance*, *Supplier Environmental Assessments*, and *Water*. However, the results are not statistically significant.

Various studies also revealed that there is a difference in CEDs among industry of companies. For example, Jessop et al. (2009), found that there is a significant change in the character of CED based on the corporations in the agrochemical industry-subsidary companies, parent companies, and domestic Indian companies. The results suggest that, in terms of analyzed categories, subsidiary corporations generally conformed more to localized reporting practices in India rather than resembling the parent companies' norms of CED. Also, Stray and Ballantine (2000) suggested that sectorial differences are reported by including all the environmental aspects where it is appropriate.

5. CONCLUSION AND RECOMMENDATIONS

The purpose of the study was to assess the level of CEDs and to investigate the differences in CEDs based on the industry type of listed Companies in Sri Lanka. The study contributes to the existing literature to identify the level of CEDs and to what extent it differs among the industries of Public Listed Companies in Sri Lanka from 2015 to 2019. Following legitimacy and stakeholder theories, the study identified the level of disclosures made on the environment and based on that, developed the relevant hypothesis.

Based on the CSE's 20 Sector classification, this study has taken 41 listed companies for the study which were categorized based on low profile and high-profile industries, and the level of disclosures measured using standards of GRI for environmental disclosures and empirical studies.

Initially, the study calculated the mean and conducted one-sample t-tests to assess the level of CEDs. The findings suggest that there is a lower level of average CEDs during the period from 2015 to 2019 with a mean value of 42.87%. One sample t-test results of yearly CEDs suggests that there is a lower level of CEDs on a statistically significant basis. Further, a one-sample t-test was performed on content categories for CEDs. The findings suggest that the level of CEDs in the category of Compliance is relatively higher whereas the level of CEDs in the categories

of *Effluent and Waste, Water, Material, Biodiversity, and Supplier Environmental Assessment* displays relatively a lower level of CEDs.

Secondly, an independent sample t-test is performed to investigate the difference in CEDs based on industry type. It can be concluded that the level of CEDs is lower in both the low-profile industry and the high-profile industries. Further, the result also displays that the level of CEDs in the low-profile industry is greater than in the high-profile industry with a mean difference of 0.29%. Accordingly, hypothesis: H1 is supported (i.e., there is a difference in CEDs based on the industry types). Further, it can be concluded that the level of CEDs in the content category of *Compliance*, in the high-profile industry is greater than in the low-profile industry with a mean difference of 9.48%.

The findings of the study suggest that there is a lower level of CEDs in the Sri Lankan context. Thus, regulators and policymakers may promote disclosures on environmental aspects. Further, professional bodies may educate corporates on CEDs to improve the level of CED practices. On the other hand, the findings of the study question whether corporates in the high-profile industry possess a semblance of legitimacy since the CED of the low-profile industry is greater than in the high-profile industry.

The nature of this study is concerned with some limitations. Firstly, this was conducted only by considering the environmental reporting based on the standards of the GRI reporting framework. Following that, this study only considered quantitative aspects of the disclosures based on GRI guidelines whereas qualitative elements are not considered. Future researchers may conduct studies by considering both qualitative and quantitative aspects by accommodating various guidelines and frameworks on non-financial disclosures.

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Appendix 1

Corporate environmental disclosure score

Materials

- 1 Materials used by weight or volume
- 2 Recycled input materials used
- 3 Reclaimed products and their packaging materials Energy
- 4 Energy consumption within the organization
- 5 Energy consumption outside of the organization
- 6 Energy intensity
- 7 Reduction of energy consumption
- 8 Reductions in energy requirements of products and services Bio Diversity
- 9 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas
- 10 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas
- 11 Habitats protected or restored
- 12 IUCN Red List species and national conservation list species with habitats in areas affected by operations Emissions
- 13 Direct greenhouse gas (GHG) emissions
- 14 Energy indirect greenhouse gas (GHG) emissions
- 15 Other indirect greenhouse gas (GHG) emissions
- 16 Greenhouse gas (GHG) emissions intensity
- 17 Reduction of greenhouse gas (GHG) emissions
- 18 Emissions of ozone-depleting substances (ODS)
- 19 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions Effluents and Waste
- 19 Water discharge by quality and destination
- 20 Waste by type and disposal method
- 21 Significant spills
- 22 Transport of hazardous waste
- 23 Water bodies affected by water discharges and / or runoff Compliance
- 24 Non-compliance with environmental laws and regulations Supplier Environmental Assessment
- 25 New suppliers that were screened using environmental criteria
- 26 Negative environmental impacts in the Supply Chain and actions taken Water
- 27 Total water withdrawal by sources
- 28 Management of water discharge-related impacts
- 29 Water consumption

Institute's News



South Asian Federation of Accountants (SAFA) inducts Mr. Hennayake Bandara from CMA Sri Lanka as President for the year 2022



TVEC Recognizes CMA Sri Lanka DABM Course at NVQ Level 6 Higher National Diploma

Institute's News



CMA signs an MOU with RR Donnelley Outsource Pvt Ltd as an Accredited Practical Training Partner



Vice President receives the “APB President Award” from the Former Central Bank Governor at the APB Annual Convention in recognition of his outstanding contribution to the Banking Industry in Sri Lanka

CMA Seminars

In keeping with CMA's commitment to Continuing Professional Development of its members and to educate the public on current financial trends the following well attended seminars were held from January – May 2022.



Gross National Happiness (GNH) – 23rd January 2022

Organized by CMA Sri Lanka in Collaboration with Centre for Bhutan & GNH Studies (CBS)



International Sovereign Bonds and impact on the Economy – 28th January 2022

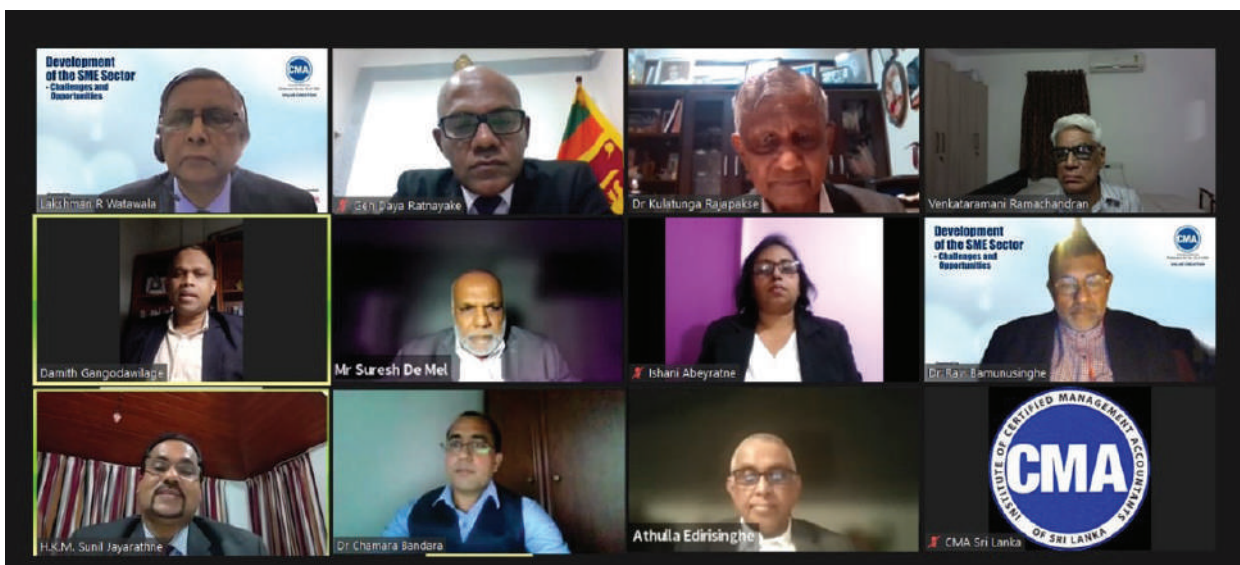
CMA Seminars



Export Performance 2021 and Future Challenges to Drive Exports & Economic Development in the New Normal – 3rd February 2022



Proposed Surcharge Tax of 25% on Taxable Profits of 2020/21 - 17th February 2022

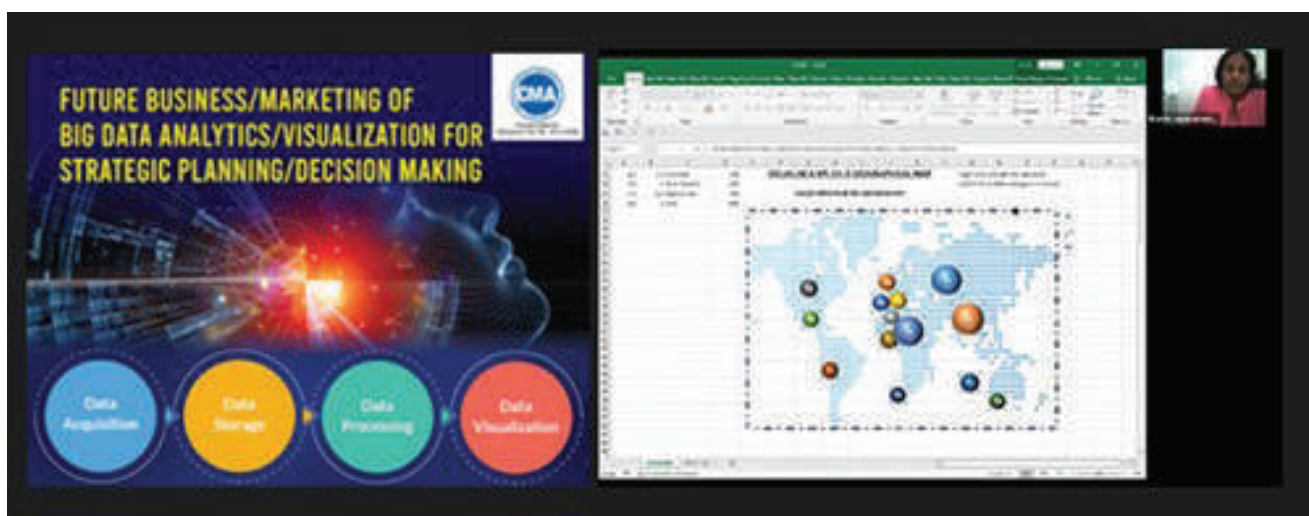


Development of the SME Sector - Challenges and Opportunities - 21st February 2022
Organized by CMA Sri Lanka COVID - 19 SME Development Committee Meeting

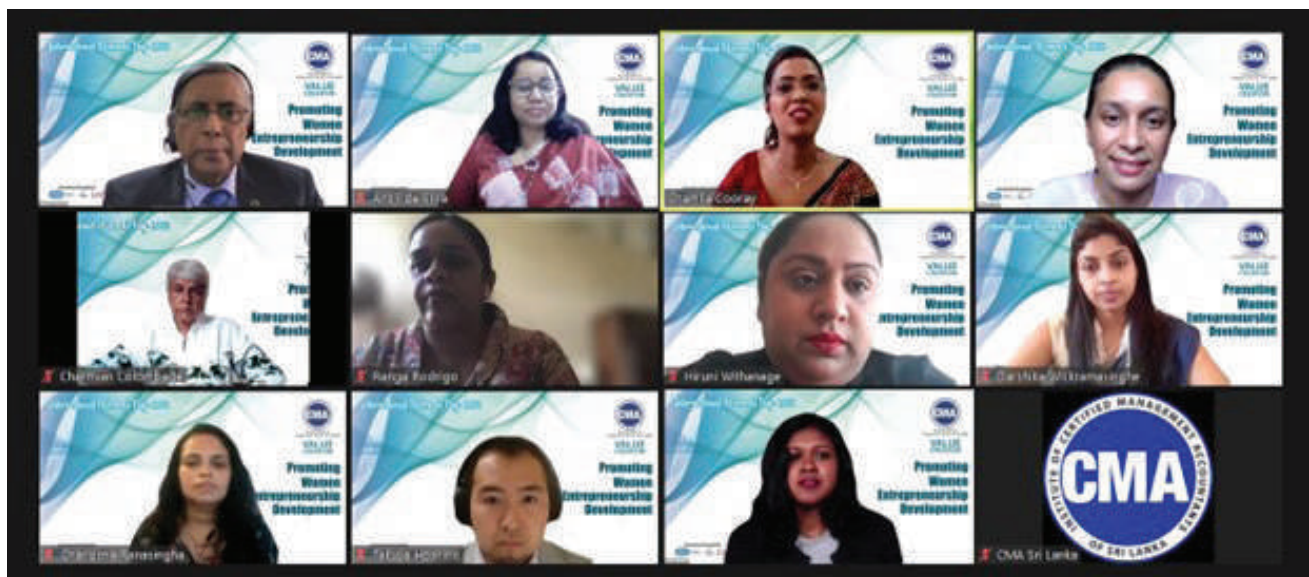
CMA Seminars



How to Excel in VUCA World; the Mindful Way – 25th February 2022

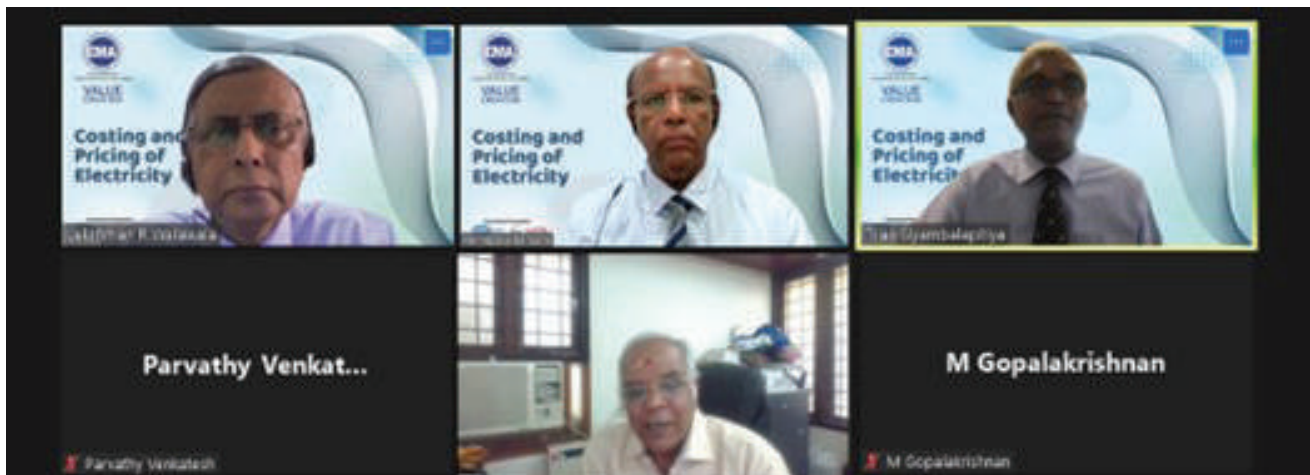


Future Business/Marketing of Big Data Analytics /Visualization for Strategic Planning / Decision Making – February 2022



CMA Sri Lanka celebrated International Women's Day 2022 organized by the CMA Sri Lanka Women Development Activities Committee on the theme '**Promoting Women Entrepreneurship Development**' on, 9th March 2022

CMA Seminars



Costing and Pricing of Electricity – 20th April 2022



SME CREDIT LINE & We-Fi GRANT Asian Development Bank Project Funding – 14th March 2022
Organized by CMA Sri Lanka COVID - 19 SME Development Committee Meeting



Impact of Foreign Exchange Fluctuations on Costing & Pricing of Products and Services – 18th March 2022

CMA Seminars



SAFA SME Development Conference 2022
Hosted by CMA Sri Lanka Supporting Small Businesses in Financial and
Cost Management to Celebrate UN MSME Day -June 2022



Impact of Foreign Exchange Fluctuations on Costing and Pricing of Products and Services of SME Sector and Solutions to
Problems – 4th April 2022

CMA Seminars



Costing and Pricing of Electricity – 10th March 2022



Costing and Pricing of Products and Services for Local and Export Markets and Impact of Pricing on Society – 6th May 2022



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