

**AN EXAMINATION OF THE EMERGENCE AND  
DEVELOPMENT OF THE ACCOUNTING PROFESSION IN  
DEVELOPING COUNTRIES: THE CASE OF SRI LANKA**

A Thesis Submitted  
In Fulfilment of the Requirement for the Degree of Doctor of  
Philosophy

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## **DECLARATION**

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

Sarath Lal Ukwatte Jalathge

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## **ABSTRACT**

This is an empirical investigation into the development of the accounting profession in Sri Lanka in the post-independence era. Taking the Institute of Chartered Accountants of Sri Lanka<sup>1</sup> (ICASL) as a case, the study researches the accounting professionalization process during the past five decades (1959-2010). Thus, the study focuses on the struggles and interactions between competing groups and organisations within the accounting profession. The theoretical framework is drawn from the sociology of the professions and it is concerned with ‘class-based occupational closure’ in the accounting profession; this restricted entry and closed off opportunities for entry into the market by locally qualified registered accountants and later by the graduates of local universities from 1959 to 2010. It argues that Sri Lanka’s connection with Britain and continuing British interests in the post-independence period significantly impacted upon Sri Lanka’s business, social, political and educational spheres.

The methodological approach of this study draws heavily upon the “middle-range” thinking approach from Laughlin (1995) and Llewellyn (2003) on qualitative accounting research, using the case study method. Thus, the main data collection for this research was through oral history interviews and archival records. In addition, secondary sources such as published articles, relevant legislation, government reports, books and websites were reviewed.

As revealed, the objective of the establishment of the ICASL has been shifted from a supply of local professional accounting manpower requirements to control over the profession and professional accounting education, by marginalising university accounting education. As evidenced during the last fifty year period (1959-2010), the ICASL produced only 3,915 professional accountants. Many stakeholders claim that this number is inadequate for emerging business

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<sup>1</sup> Country’s name was changed from Ceylon to Sri Lanka in 1972 and the Institute of Chartered Accountants of Ceylon was also changed to the Institute of Chartered Accountants of Sri Lanka.

development. The major reason for lack of professionally qualified accountants in the country is partly due the fact that the ICASL's resistance to university accounting education, an approach patterned on the British model. As a result the gaps in accounting services in corporate and other sectors are met by British professional accounting bodies such as ACCA and CIMA.

This suggests that the ICASL is losing its market share, as the British professional accounting bodies, CIMA and the ACCA, become the most popular accountancy bodies in Sri Lanka; thus capturing a major portion of the accountancy market. Moreover the ICAEW entered the local market by signing an MOU with the ICASL in 2010, which are a perfect example of the British model and the re-emergence of ICASL's preference to follow the elite tradition in the accounting profession.

## **ABBREVIATIONS**

AARF	- Australian Accounting Research Foundation
AAT	- Association of Accounting Technicians
ACCA	- Association of Chartered Certified Accountants
ACPA	- Australian Corporation of Public Accountants
ADB	- Asian Development Bank
AICA	- Australian Institute of Chartered Accountants
ASA	- Society of Accountants
ATS	-Automated Trading System
BCHEAN	- Business College Human Ethics Advisory Network
BICPA	- Brunei Institute of Certified Public Accountants
CA	- Chartered Accountants
CAB	- Ceylon Accountancy Board
CBA	- Colombo Brokers Association
CIA	- Commonwealth Institute of Accountants
CIMA	- Chartered Institute of Management Accountants
CISIR	- Ceylon Institute of Scientific and Industrial Research
CITE	- Committee on Investigation into Technical Education
CPA	- Certified Practising Accountants
CRTS	- Commonwealth Reconstruction Training Scheme
CSAA	- Ceylon Society of Accountants and Auditors
DC	- Developing Countries
FDI	- Foreign Direct Investment

FIA	- Federal Institute of Accountants
FTA	- Future Training of Accountants
CSE	- Colombo Stock Exchange
IAB	- Indian Accountancy Board
IAV	- Institute of Accountants Victoria
ICAA	- Institute of Chartered Accountants in Australia
ICAC	- Institute of Chartered Accountants of Ceylon
ICAEW	- Institute of Chartered Accountants of England and Wales
ICAI	- Institute of Chartered Accountants in Ireland
ICAI	- Institute of Chartered Accountants of India
ICAJ	- Institute of Chartered Accountant of Jamaica
ICAN	- Institute of Chartered Accountants of Nigeria
ICAS	- Institute of Chartered Accountants of Scotland
ICASL	- Institute of Chartered Accountants of Sri Lanka
ICATT	- Institute of Chartered Accountants Trinidad and Tobago
ICATT	- Institute of Chartered Accountants of Trinidad and Tobago
ICPAK	- Institute of Certified Public Accountants of Kenya
IIA	- Institute of Incorporated Accountants
IIANZ	- Incorporated Institute of Accountants of New Zealand
InGAF	- Institute of Government Accountants and Finance
IPFDA	- Institute of Public Finance and Development Accountancy
KASNEB	- Kenyan Accountants and Secretaries National Examination Board
MACPA	- Malaysian Institute of Certified Practising Accountants
MIA	- Malaysian Institute of Accountants

MICPA	- Malaysian Association of Certified Accountants
MOF	- Ministry of Finance
NEC	- National Education Commission
NZCA	- New Zealand Institute of Chartered Accountants
NZSA	- New Zealand Society of Accountants
PLS	- Plain Language Statements
PRC	- People's Republic of China
RA	- Registered Accountants
RAB	- Registered Accountants Board
SLAASMB	- Sri Lanka Accounting, Auditing and Accounting Standard Board
SAFE	- South Asian Federation of Exchanges
SCMASL	- Society of Certified Management Accountants of Sri Lanka
SLATE	- Sri Lanka Advanced Technical Education
SLFP	- Sri Lanka Freedom Party
SRO	- Self-Regulatory Organization
T & T	- Trinidad and Tobago
UNP	- United National Party



# Chapter 1: Introduction

## 1.1 Introduction

There has been much academic debate and research on the professionalization<sup>2</sup> of accounting in Western countries, which has extended to developing countries in Africa and Asia. Sri Lanka was colonised by the British for nearly one hundred and fifty years (from 1796-1948). Sri Lanka provides an interesting case study of a developing country that inherited her accounting profession from the British system and has continued to follow the same system even after her independence. This study aims to explore the accounting professionalization process in Sri Lanka in the post-independence period (1959-2010), focussing on the local professional accounting body – Institute of Chartered Accountants of Sri Lanka – ICASL. Furthermore this study attempted to explore the ICASL’s maintenance of conditions which gave rise to exercise of control, conflicts of interests, cooperation and struggles within professional groups, and the influence of British professional accounting institutions.

As a result of colonial links with Britain, Sri Lankan accounting and auditing systems have been influenced by the British regulatory system (Perera, 1975; Yapa, 2000; 2006; 2010; Wijewardena and Yapa, 1998; Snodgrass, 1966). Sri Lanka was given its political independence by the British in 1948. A long period of colonization<sup>3</sup> had seen an undermining of the fundamental economic structure that the country had inherited. At the time of political independence, Sri Lanka provided a classic example of an export-oriented (mainly tea, rubber and coconut) modern plantation economy financed by

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<sup>2</sup> Professionalization means “the establishment and maintenance of conditions which give rise to the exercise of control by an occupational association so that it can move towards the end –state of professionalization” (Johnson, 1972; Larson, 1977; Abbott, 1988; Freidson, 1994; Macdonald, 1995).

<sup>3</sup> Before colonization, the Sri Lankan population consisted mainly of Sinhalese, whose language and religion were Sinhalese and Buddhism. Representing 85% of the population, they were the majority (Wickramasinghe and Cameron, 2004). Sri Lankan Tamils – descendants of the 11th century Indian invaders known as the Ceylon Tamils – spoke Tamil and their religion was Hindu. Moors were a very small population that migrated to Sri Lanka for trade purposes. Burgers were also immigrant descendants from the Portuguese and Dutch colonists. In 1505, the country was colonized by Portuguese (1505-1656) but this had little impact on the economy because they were involved in indigenous commodity trading. The Dutch East India Company (1656-1796) defeated the Portuguese in 1656. The Dutch introduced Roman-Dutch Law and Catholic education while expanding existing economic activities in order to increase trade surpluses. This was the beginning of the creation of different sets of social classes among the society (Jayawardena, 2000), such as the working class and educated white-collar workers.

British capital. The British-introduced plantation sector had become the backbone of the Sri Lankan economy, accounting for nearly 88 per cent of export earnings, 37 per cent of GDP and 27 per cent of employment (Snodgrass, 1966). During the colonial period, Britain owned most of Sri Lankan big businesses, particularly in the plantation sector, and applied British company regulations to manage these companies. A capitalist form of management had been instituted in the plantations. The rise of accountancy in this colony was closely linked to the changing economic climate and originated from the need to provide investors in Britain with financial information pertaining to their investments in Sri Lanka.

The arrival of the British capital and enactment of new company legislation, called the Joint Stock Companies Ordinance No. 4, of 1861, is the first legislation that governed the companies in Sri Lanka for 77 years; in 1938 it was replaced by the Companies Act No. 51 of 1938. This Act was the catalyst for the development of the accounting profession in Sri Lanka. The enactment of the Companies Act of 1938 was stimulated by the colonial government in Sri Lanka with its appointment of ‘Commission on Company Law, Banking, Insurance, Accountants and Auditors’ under the supervision of L.M.D. De Silva<sup>4</sup> as Chairman in 1950. Therefore, this commission is called L.M.D. De Silva Commission (hereafter De Silva Commission, 1950). The Terms of Reference of the De Silva Commission 1950 were “*to make recommendations as to the measures that should be adopted for the training and registration of, and the maintenance of professional standards among, accountants and auditors in Ceylon*”. The report of this commission was submitted in 1950 and it was published as a sessional paper and called for the need of a local accounting body which was called the Institute of Chartered Accountants of Ceylon<sup>5</sup> (ICAC) (Ceylon Sessional Paper, February, 1950). Later in 1972 the name of the ICAC was changed to Institute of Chartered Accountants of Sri Lanka (ICASL) (hereafter ICASL).

The British capital played a significant role in Sri Lanka both pre and post-independence. According to De Silva (1982), British capital took two forms: ‘productive’ and ‘mercantile’. The productive capital came in the form of direct investments in plantations provided by the scattered mass of absentee stockholders of British plantation companies,

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<sup>4</sup> Rt. Hon. L. M. D. De Silva KC – Privy Counsellor and Honorary Fellow of St John's College, Cambridge. United Kingdom.

<sup>5</sup> The country’s name during the political independence was ‘Ceylon’ and in 1972 with the constitutional change the name of the country was changed to ‘Sri Lanka’.

commonly known as ‘Starling Companies’. Within productive capital there were two categories namely ‘fixed’ and ‘variable’. The former was mainly for factory buildings and infrastructure development, and the latter was the labour, which was the largest portion of the ‘variable’ capital and, generally, it represented around 60 percent of the total operating capital of the estate. ‘Mercantile’ capital included various fees, which have been charged by the colonial masters were commissions on sales proceeds and margins on various services such as insurance and freight. Mercantile capital utilized a greater portion of the plantation surplus compared to productive capital (De Silva, 1982).

The British influenced every aspect of the lives of Sri Lankans, keeping them bound to the British Empire by a strong sense of loyalty. The British rule had a significant and enduring impact on various social, political and economic aspects of the country (Perera, 1975). For example, the very top posts of some of the biggest industrial and trading companies<sup>6</sup> that were involved in mercantile activities associated with the plantation sector in Sri Lanka were held by British qualified accountants. The economic and social transformation that took place during and post-colonial rule provided some individuals and families with the opportunity of social advancement through educational accomplishments in the medium of English and economic enterprises in the planting of cash crops (Perera, 1975; Gamage, 1991; Wijewardena and Yapa, 1998; Yapa, 2006, 2010).

The whole range of business activities in Sri Lanka created as a result of the plantation sector also demanded the need for accounting and auditing services to provide investors in Britain with financial information pertaining to their investments in Sri Lanka. During the colonial period, the Colombo Share Market (CSM) also contributed, at least partly, to the development of accountancy in the country. The CSM has been in existence since 1896. It was first formed for the purpose of financing the plantation sector and functioned under the supervision of the Colombo Share Brokers’ Association. In 1904, the Association became the Colombo Brokers’ Association (CBA) with the direct control

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<sup>6</sup> These companies are: Walker Sons & Co. Ltd, the Ceylon Wharfage Company Ltd, the Colombo Commercial Company Ltd., Delmege Forsyth & Co, Ltd, Mercantile Bank Ltd, National Bank Ltd, George Stuart & Co. (Report of the Special Committee, 1949).

over of the British Brokers' Association. Accordingly, the CBA adopted the rules and by-laws of the British Brokers' Association in relation to its trading activities (Grigson, 1968; Hand Book of World Stock and Commodity Exchanges, 1991). Originally, there were only five British companies<sup>7</sup> involved in the stock broking transactions in the country. In addition to stock broking, these companies were engaged in the trading of tea, rubber, coconut and other minor products that were exported from Sri Lanka. Greater impact on the development of the accounting environment in Sri Lanka originated mainly from the development of the stock market and the Companies Act.

As a result of such developments in the 1890s, several private educational institutions offered accountancy tutoring classes for those who followed British accountancy examinations, such as the London Chamber of Commerce Certificate and the Cambridge Certificate. The Ceylon Technical College<sup>8</sup> was established by the colonial administration in 1893. However, there were no commerce or accounting courses offered by the Ceylon Technical College until 1908. Moreover, the country primarily relied on British professional bodies to fill accounting professional services, rather than creating opportunities for local professions through local technical colleges or universities (De Silva, 1969). It is evident that the first British professional accountancy examinations were held in Colombo in 1920 by the London Chamber of Commerce (Johnson and Caygill, 1971), but there were no professionally qualified accountants in Sri Lanka until 1925, except in the Railway Department (Perera, 1975).

After the enactment of the UK Companies Act of 1929, steps were taken to revise company law in Sri Lanka and to follow closely the principles and provisions of the English Act (Perera, 1975), culminating in the passage of the Companies Ordinance No. 51 of 1938. The ordinance required that persons appointed to audit company accounts should first be registered under regulations made for these purposes, and drew attention to the need for establishing a controlling body called the 'Ceylon Accountancy Board' (CAB) and an avenue for formal admission into the accounting profession in Sri Lanka.

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<sup>7</sup> 1. Somerville and Co, 2. Bartlet Co, 3. Forbes & Walkers Co, 4. George Sturt Co, 5. John Keels & Co

<sup>8</sup> Similar to TAFF colleges in Australia

The CAB was established in 1941 by the colonial government to introduce regulations and conduct accountancy examinations to select and recruit suitable members to the Ceylon Registered Accountancy Service (Perera, 1975; Wijewardena and Yapa, 1998). Those accountants were called ‘Ceylon Registered Accountants’ (RAs); however, they were trained and worked under the supervision of British qualified accountants, since there was no local professional accounting body at that time (Perera, 1975; Yapa, 2006).

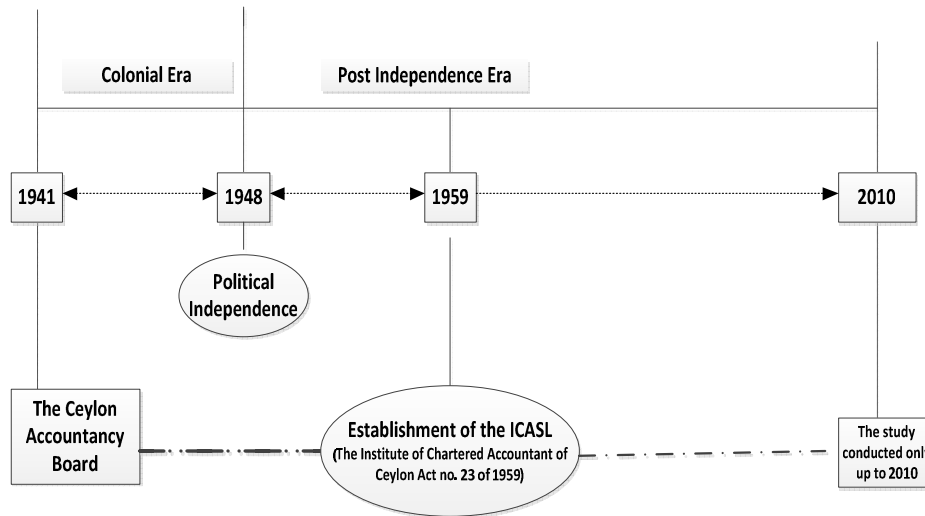
It is interesting to note that during the initial stage of the Parliamentary Bill for setting up the ICASL, there had been some concerns raised by the Ceylonese (Sri Lankans) with regards to the creation of an accounting profession that would accommodate two classes of accountants, namely ‘Chartered Accountants’ and ‘Registered Accountants’. The professionals in Sri Lanka called the former an ‘elite group’ of the accounting profession. The ‘elite group’ influenced decisions through their personal connections with government members (Perera, 1975) and consequently the Institute of Chartered Accountants’ Bill was passed by the Parliament in May, 1959. Consequently, the long awaited local institute (ICASL) was established on the 15<sup>th</sup> of December 1959. The central focus of this study is the professionalization process of accounting, during post-independence – that is, since the establishment of the ICASL in Sri Lanka.

## **1.2 Motivation**

This study aims to explore the accounting professionalization process in Sri Lanka during the post-independence period from 1959 to 2010, highlighting various struggles and interactions within the profession and the influence of British professional accounting institutions on the local professional accounting body – ICASL. However, the researcher considers the major events that took place in 1941 since this is when the CAB was established by the colonial government and it was a major turning point for the localization of the accounting profession. See Figure 1.1 for the time frame of the study. Thus, the study will mainly focus on the struggles, conflicts, controls and interactions between various groups within the accounting profession in Sri Lanka. Those who were qualified with the Institute of Chartered Accountants of England and Wales (ICAEW) (called the ‘elite group’) claimed that they were more superior to the RAs who were qualified through the CAB. The former were labelled the ‘elite’ class within the

profession in Sri Lanka. The RAs were marginalised in the accounting practice by the elite group; consequently the RA's work was restricted only to small businesses and to the state sector in Sri Lanka. Subsequently, amendments were brought into the ICASL Act in the mid-1960s to exclude the category of RAs. In addition, the British qualified chartered accountants (elite group) did not recognise the locally qualified accounting graduates and restricted their entry into the profession mainly through tough examinations and entry requirements. Thus, it appears that the development of the accounting profession in Sri Lanka was derailed and accounting man-power requirements needed by the country were affected due to closure strategies followed by the elite groups dominating the council of the ICASL. However, the British professional accounting bodies such as the Association of Chartered and Certified Accountants (ACCA) and Chartered Institute of Management Accountants (CIMA) were able to fill the gap of accounting manpower requirements to a certain extent in Sri Lanka during the period under review. It is interesting to note that those accountants who were qualified with ACCA and CIMA were not able to practise as public accountants in Sri Lanka. These were the factors motivated to conduct this research.

**Figure 1.1 Time frame of the Study:**

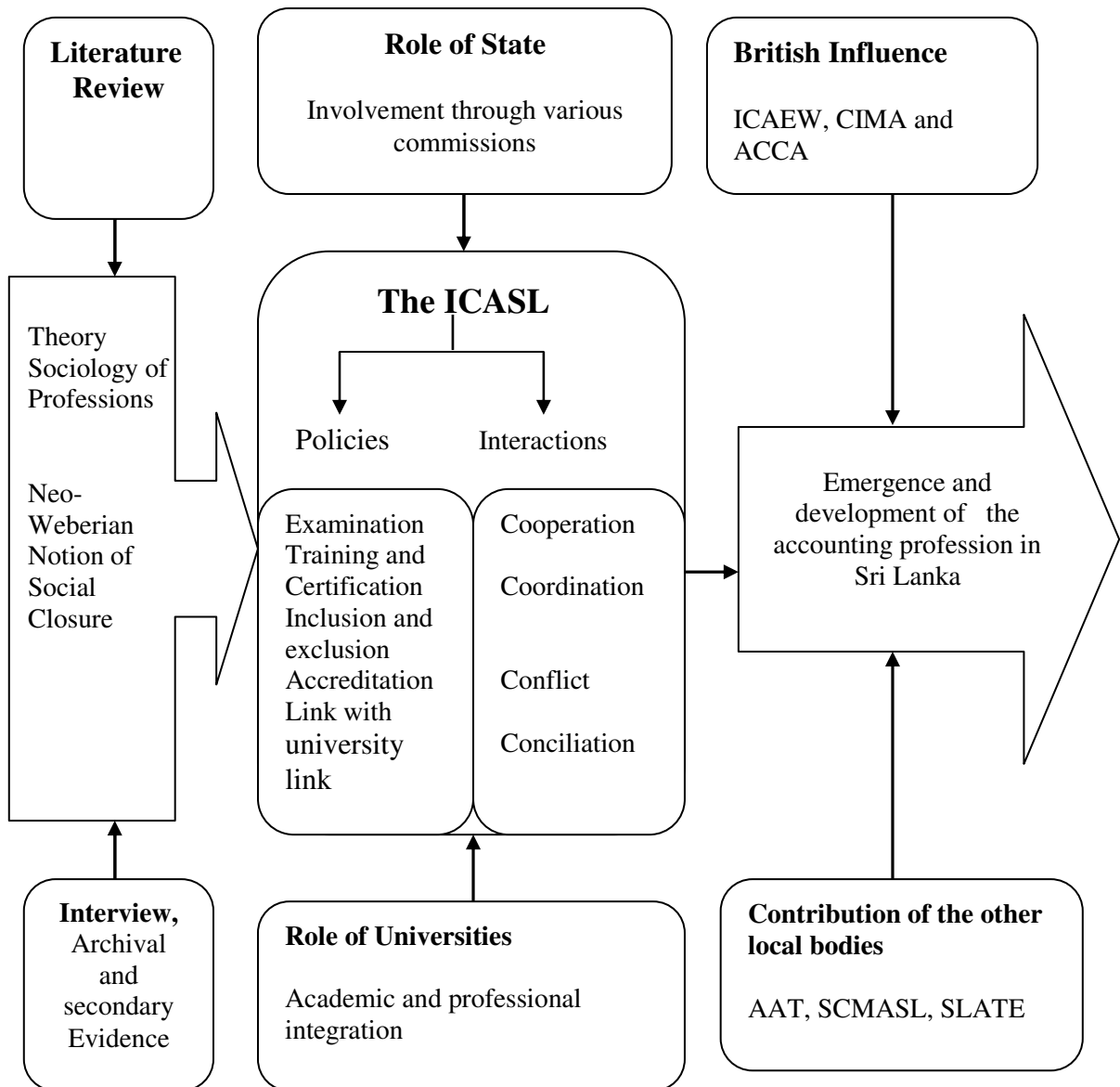


Source: Author developed for the study

### 1.3 Conceptual Framework

As explained earlier, the accounting profession in Sri Lanka has been influenced by British and the tradition was perpetuated through the local elites (Perera, 1975; Yapa, 2006). The aim of this proposed study is to investigate various interactions among occupational groups and accounting associations on the development of accounting profession during post-independence period (1959-2010) and to critically analyse the evolution of the accounting profession in Sri Lanka. Thus, this study focuses on the factors influencing on the development of the profession. Based on the theoretical reasoning supported by the literature review, the following diagram explains the conceptual framework of the proposed study. The objectives and the research questions are formulated based on this conceptual framework.

**Figure 1.2 Conceptual Frameworks**



Source: Author developed for the study

## 1.4 Problem statement

This thesis is organised as a case study and it attempts to investigate the accounting professionalization process in Sri Lanka in the post-independence period from 1959 to 2010, focussing on the local professional accounting body. The outcome of this research is important not only because it may help us understand the professionalization of



accountancy in the case of Sri Lanka, but because it may yield an understanding of 20<sup>th</sup> century professionalization projects in accountancy in general.

### **1.4.1 Research objectives**

The objectives of the study are formulated as follows:

1. To identify the impact of social closure as an entry restriction to the profession by professional elites within the ICASL.
2. To explore the interactions between the state, professions, other organizations and the university, to understand how these institutional relationships contributed to the professionalization process.
3. To understand the professionalization process theoretically, with special reference to Sri Lanka and other British colonies in general.
4. To understand the influence of British professional accounting bodies on the professionalization process of accounting in Sri Lanka.

Based on the research objectives formulated above, research questions for this study are articulated by considering important aspects of professional accounting development during the last fifty years in Sri Lanka. Thus the study attempts to address the following research questions:

### **1.4.2 Research questions**

#### **Main question:**

1. What is and what has been the nature and extent of the professional challenges, maintenance of controls, conflicts and interactions between professional groups and the influence of Britain on the professionalization of accounting in Sri Lanka?

#### **Sub questions:**

1. What was the nature and extent of the institutional influence of British-based professional accountancy bodies (ACCA, CIMA) on the development of the accountancy profession in Sri Lanka?

2. How did the ICASL council maintain conditions which gave rise to exercising strategies to control the profession?

## **1.5 Rational for the study**

Evidence suggests that the British accounting system model was imposed on Sri Lanka during the colonial period through several channels such as (1) the export of British accounting personnel, (2) the export of British accounting qualifications, (3) the establishment of examination centres in Sri Lanka for British professional accounting bodies, and (4) the provision of on-the-job training for local staff by British accountants. Until the establishment of the ICASL in 1959, prospective accountants in Sri Lanka had to depend entirely on a few professional accounting bodies in the United Kingdom (UK) to obtain their professional qualifications. Since then, the ICASL as the local professional body has been the centre of the accounting profession in Sri Lanka. However, after the setting up of this professional body, even though chartered accountants could be produced locally as well, the method of producing accountants continued to be the same as that of the ICAEW. Following the British system, the founders of the ICASL introduced their own professional examinations; only those who passed these examinations and successfully completed a five-year period of practical training as ‘articled clerks’ under the supervision of chartered accountants (called principals), were to be admitted to the membership of the Institute as ‘Chartered Accountants’. The ICASL also provided a study program to its registered students, enabling them to prepare for the intermediate and final (Professional) examinations. Both formal education and on-the-job training adopted by the ICASL stressed conformance with the requirements of the Companies Ordinance which was modelled on the British Companies Act of 1929.

However, the local profession did not develop as expected by the state, due to various struggles and conflicts of interest between the founding members and locally qualified RAs during the early stages. The founding members were British professionals (called ‘elites’ by the professionals) and they were the local ‘privileged class’; they had both the authority and the motivation to protect their professional rights and privileges to maintain British interests. They undermined the RAs and excluded them from the profession by

amending the Act in the 1960s with the approval of Parliament. Similarly, business graduates from the local universities were excluded from the profession by them not being provided with proper recognition and therefore entry into the profession. However, the ICASL had developed cooperation with British professional accounting bodies such as ACCA and CIMA through exemption schemes. Post-independence, the Sri Lankan accounting professionalization process was believed to be thwarted due to challenges, conflicts and controls imposed by various groups within the profession coupled with British influences. Meanwhile the British professional accounting bodies such as CIMA and ACCA increased their student memberships significantly and the student membership numbers of the ICASL declined comparatively over the decades. This indicates the continuous domination and influence on the accounting profession by the British professional accounting bodies, coupled with various struggles and conflicts of interests among professional groups of the accounting profession in post-independent Sri Lanka.

## **1.6 Benefits and contribution to the society**

The main benefit of this thesis is that it provides a historical context of the accounting professionalization process in Sri Lanka. The historical context will highlight the effect of the continuation of British interest, through various strategies on the accounting professionalization process, while neglecting the local needs in Sri Lanka especially during post-independence.

This study attempts to contribute to existing knowledge on two levels: 1) empirically and 2) theoretically. Firstly, it seeks to make an empirical contribution to the professionalization literature in general, and accounting literature in particular. The research adds to the existing literature of historical studies on the professions, which we can find in the fields of law, medicine and accounting as well. The researcher believes that by investigating the professionalization of accounting in a developing country – Sri Lanka – this study not only serves to improve the understanding of the behaviour of various occupational groups through empirical evidence, but also serves to broaden the understanding of the accounting professionalization processes outside the developed world.

There are many professionalization related studies in the literature that reflect differences in professionalization processes in the developed and developing worlds (Richardson, 1997; Carnegie and Parker, 1999; Chua and Poullaos, 1998; Annisette, 2000; Yapa, 2006, 2010; Bakre, 2008, 2010; Sian, 2007;2011; Susela, 1999, 2010; Verma, 2009, 2010). Yet it is worth expanding the present understanding of how professional promulgations vary from one country to another. In the 1970s, Johnson's contribution on the sociology of professions emphasized the neglect of the developing country phenomena, but today, many studies have been conducted in developing nations, particularly in the African and Asian regions.

Secondly, this thesis also seeks to contribute on a theoretical level. According to theorists such as Abbot (1988) and Larson (1977), professional training and credentialing is the central focus of a professionalization project, because it is the process by which an emerging occupational group comes to exercise control over the 'production of professional producers' (Larson, 1977:50). It is argued that since services are not embodied in a physical form, it is only through establishing control over the supply of producers of these services that occupations succeed in controlling the market for services – the critical step in forming a profession.

This thesis, therefore, aims to understand the development of the accounting profession in Sri Lanka during post-independence, and the formation of an accounting professional body (ICASL) for improving accounting services. In attempting to understand these, this thesis will trace the development of the accountancy services in Sri Lanka, and will seek to understand: how various professional struggles; conflicts of interest between professional groups; interactions within groups; the nature of the education, and how the state affected these professional services. It also aims to examine how the British professional accounting bodies influenced the Sri Lankan accounting profession after political independence. In this regard, this study will consider how these factors may have affected professional development for accountants in Sri Lanka. The thesis, therefore, aims to contribute to a broader understanding of the accounting professionalization process, especially that of the former British colony – Sri Lanka

The following points are also seen as valid outcomes of the study:

1. This will be the first comprehensive empirical study on the post-colonial accounting professionalization process and its implications conducted in Sri Lanka.
2. This study will establish a framework that explains why the Sri Lankan post-colonial professionalization process is different from that of other developing countries (DCs).
3. Ontologically, this research represents an attempt to understand the subjective reality of the social world. Epistemologically, it is based on the replication of theory as against the generalization of social phenomena.

## **1.7 Research methodology**

This research concerns the accounting profession and its post-independence development in Sri Lanka. Researchers use the case study method for various studies and it contributes in important ways to our knowledge about complex social phenomena (Yin, 2003). A case study approach, as a qualitative research approach, is used and the ICASL is the case chosen for investigation. The rationale behind this selection is that, according to the provisions of the Institute of Chartered Accountants Act No. 23 of 1959, the Sri Lankan accounting professionalization process was mainly under the control of the ICASL; therefore special attention needs to be paid to examining the professionalization process of this national accounting body.

An explanatory case study approach is used to enhance understanding and provide sound explanations. Yin (2003) indicates that explanation is a potential causal path, which probably helps to find answers to the question of how and why some event(s) occur. Thus case studies create inroads into the attribution of problems.

It is important to organise precise sets of data to develop the argument. The collection of relevant data, therefore, is a crucial part of any research project (Humphrey and Lee, 2004: 228). Thus, the next section describes the methods of data collection, types of data and possible limitations of the data set.

## Methods

The main data collection methods for this research are in-depth interviews (including oral history interviews) and some archival records, such as Sri Lankan Parliamentary Hansard reports and historical records of the ICASL. In addition, secondary sources such as published articles, books and websites are reviewed and utilised. The Methodology and Methods chapter, (Chapter 3), provides details about the interviewees and the process of their selection; it also explains how the interview responses have been able to substantiate the objectives of the interview questions associated with this study.

As pointed out by scholars (Parker, 1987; Sikka, 1996; Sian, 2006), oral history interviews are one of the most powerful means of recording and preserving the unique memories and life experiences of people whose stories might otherwise have been lost. Oral history interviews are grounded in memory, and memory is a subjective instrument for recording the past, always shaped by the present moment and the individual consciousness (Truesdell, 2010). Thus, oral history interviews can reveal how individual levels and actions shaped the past, and how the past shapes present-day values and actions. According to Hammond and Sikka (1996) oral histories have a potential to reveal different representations and interpretations of the 'same' set of events, since they go beyond the official written evidence privileges. Thus, it creates a more vivid, firsthand and accurate picture of our past and has been used in many professional accounting studies (Carnegie and Napier, 1996; Collins and Bloom, 1991; Hammond and Sikka, 1996; Parker, 1987, 1999; Previts, *et al.*, 1990; Sian, 2006). These authors believed that the oral history technique would be a suitable technique for recollecting series of events and actions and reactions in the past. Therefore, the oral history approach was carried out by conducting semi-structured interviews with prominent individuals (such as founding members) in the professional accounting association – ICASL – in Sri Lanka.

## ***Interviews***

Twenty-five interviews were conducted at two different intervals: Phase 1 interviews were conducted from November to December in 2009, and Phase 2 interviews were conducted in December, 2010. Twenty interviews were conducted in the first phase and the other five interviews were conducted in the second phase. Respondents' backgrounds and detailed descriptions are provided in relation to the two phases of the interviews in Chapter 3 of this thesis. Interviews were conducted on a one-to-one basis with senior members of the ICASL and senior university accounting academics in Sri Lanka. Interviews varied in length from one to one and a half hours each. Nearly half the interviewees were retired or semi-retired; this was an advantage for this study as due to respondents' age, they were able to recall historical incidents relating to the professionalization of accounting in Sri Lanka. Follow-up interviews were held to clarify and/or confirm issues emerging from original interviews, as well as to authenticate textual materials gathered in relation to the accounting profession in Sri Lanka. All interviews were audio recorded and encrypted for the analysis purpose. A summary of the interview questions are provided in Appendix 1.

## ***Limitations of the interview process***

The interview process appears to be difficult because it is generally recognized that interviewing has its own shortcomings, such as researcher bias, poor recall and inaccurate articulation (Yin, 2009: 85). In addition, there are problems with respondents perhaps seeking to mislead the researcher, or forgetting to mention important events from the past (Denzin, 1977, cited in Silverman, 1985: 163).

On the other hand, interviewees may mitigate some shortcomings when they are engaged in the interview process. "They obtain cooperation and build rapport, yet remain neutral and objective. They encroach on the respondents' time and privacy for information that may not directly benefit the respondents." (Neuman, 2003:292). The aforementioned limitations present a threat to the validity and reliability of the study. Therefore, measures have been taken to reduce such limitations, particularly using the triangulation approach to validate against data collected through other methods.

Triangulation is a methodological technique used to validate data, popularised by Campbell and Fiske (1959), and frequently used in contextual accounting research (Walker and Shackleton, 1995). Convergence of methods may “enhance our belief that the result is valid and not a methodological artefact” (Bouchard, 1976: 268, quoted in Jick, 1979:602). In this study the triangulatory approach involves the use of three sources of data as follows:

1. Interviews with ICASL members and university accounting academics in Sri Lanka.
2. Secondary sources such as annual reports, scholarly and practitioner journal articles, websites, legal records, books and Acts of Parliament.
3. Archival records, such as sessional papers and Hansard Reports from the National Archives on the ICASL formation and subsequent state sponsored committee reports.

The data set yields a description of the emergence, subsequent development and impediments to the development of the accounting profession in Sri Lanka.

## **1.8 Limitations of the study**

Limitations of the study may arise due to such reasons as complexity of the case study and the methods and techniques that constitute a case study approach. Interview data may be subject to bias due to respondents providing answers they believe will be pleasing to the interviewer, rather than answering honestly. This study specifically covers fifty years (post-independence) of the accounting professionalization process in Sri Lanka, thus 25 interviews may not cover all of the important incidences in the history of the accounting professionalization process in the country. Evidence collected from archival sources for this study may also not identify all historical incidences that occurred during the accounting professionalization process. Finally, the sample does not represent some of the accounting and auditing professionals who held key positions in the accounting profession in Sri Lanka.



## **1.9 Organization of the thesis**

This thesis is organized as follows: Chapter 2 reviews the relevant empirical studies in the literature on the accounting professionalization process both in developed and developing worlds. There has been significant academic debate and research on the professionalization of accounting in Western countries, which then extended to developing countries in Africa and in Asia over the last few decades. It begins with literature on the professionalization of accounting in the developed world, and later provides literature on the accounting profession in developing nations across the globe. This chapter identifies the research gap relevant to Sri Lanka on accounting professionalization literature. The chapter 3 presents a theoretical foundation for this study. It introduces selected theories of social closure, which derive from critical perspectives on the sociology of professions. It introduces the seminal papers and ideas of Terry Johnson, who in juxtaposing professionalization with the sociology of professions, provides some important materials for understanding how professional development in British colonies was influenced by UK professions.

Chapter 4 also consists of two parts. Part one represents the research methodology drawn from the Laughlin's (1995) Middle Range Thinking approach and Sue Llewelyn's (2003) conceptual framing which has been introduced specially for qualitative research on accounting. It provides the main research question and sub questions pertaining to this study. Part 2 of the chapter provides information about the research methods. As explained the main data collection is based on interview data, thus this section of the chapter elaborate on the interview data collection process and processing methods. In addition to interview data, the study collects data through archival evidence and other related published materials.

Chapter 5 to 8 present the empirical data and analysis of the case study. Chapter 5 provides a brief introduction to the socio-political milieu of Sri Lanka during post-independence. This is considered necessary to familiarise the reader with the unique array of socio-political forces that impacted on social behaviour in Sri Lanka; these potentially influenced the nature of the professionalization process of accounting in the country under the British regime, and continued to do so during post-independence This chapter also covers a period of 18 years (1941-1959) of the accounting

professionalization process in Sri Lanka. The reason the researcher focused particularly on the year 1941 is that this is when the CAB was established by the colonial government, and it was a major turning point in the localization of the accounting profession. It seeks to explain how and why the professionalization of accounting was at the hands of British professionals even after independence.

Chapter 6 covers the post-independent accounting professionalization process, which mainly includes the establishment of the national accounting body (ICASL) and its involvement in the development of the accounting profession in Sri Lanka. The ICASL is the national professional accounting body of Sri Lanka established by an Act of Parliament (Act No. 23 of 1959). The Council of the ICASL is responsible for conducting examinations, supervising and regulating professional accounting education, and training. The Council also is responsible for maintenance of the professional standards among members and the advancement of the profession. Thus, this chapter critically examines the evolution of the accounting profession and how ICASL successfully maintained control and closure over the accounting practice in Sri Lanka during the last fifty years.

Chapter 7 provides an analysis of the empirical data on the professional accounting education, and the attempts made by the local universities to seek accreditation for commerce/business and public administration/accounting degrees through the local accounting body – ICASL. It highlights the article-ship training and the subsequent training developments in the ICASL, and the development of accounting education at universities over the last five decades. This chapter highlights how ICASL successfully maintained control over higher education in accounting over the period under review, by restricting accounting graduates into the profession. This chapter critically evaluates the British professional accounting bodies, cross border competition and their domination of the supply of professional accounting qualifications to fill the accounting manpower gap in the country, created to a certain extent by the ICASL.

Finally, Chapter 8 provides a summary of key findings and the conclusion of the study, and suggestions for future research.

## **Chapter 2: Review of literature on accounting professionalization processes**

### **2.1 Introduction**

This chapter is divided into two parts. The first part is on the literature review and the second part is on the theoretical framework.

The main purpose of this chapter is to explore and lay a solid foundation for the theoretical structure of this doctoral study, drawing on previous studies on the professionalization of occupations. To this end, in this chapter a review is undertaken of the theoretical and empirical foundations used by researchers in investigating the process of professionalization in accounting. This chapter seeks to understand the research gap and provide a sketch of the broad contours of the theoretical framework, which will be used to study the development of the accountancy profession in Sri Lanka. In this study, professionalization is defined as the establishment and maintenance of conditions which give rise to the exercise of control by an occupational association, so that it can move towards the end – state of professionalization (Johnson, 1977; Larson, 1977; Abbott, 1988; Freidson, 1994; Macdonald, 1995; Willmott, 1986).

The chapter is organized as follows: Section 2.2 presents various research studies found within the professionalization process literature on developed countries such as Britain, Germany and France. As many developing countries have at some time in their history been a colony of a developed country, this will inform the present study. As we shall see, it was commonplace for colonial masters to recruit professional accountants from their home country to manage their business in the host country, with a resulting transfer of knowledge (theory, practices, process) to the developing world. Section 2.3 synthesizes the contemporary approaches to the development of the accounting profession in British colonies and the underdevelopment of the profession; it also reflects any research gaps in the literature on accounting professionalization with special reference to the case of Sri Lanka. Section 2.4 highlights the state and the profession relationship in relation to the development of accounting profession. Section 2.5 identifies the relationship between the universities and the profession. Section 2.6 critiques the British professional bodies'

domination over the local accounting profession. Section 2.7 provides a summary of the literature.

## **2.2 Development of accounting profession in developed countries**

Accounting functions, as professional functions, had been firstly identified by developed nations. Therefore, this section discusses the historical background of the accounting professionalization process in developed countries. Firstly, the study pays special attention to the British accounting profession and secondly, it considers the other European nations' accounting professionalization processes. Finally, the study pays attention to developed nations other than Britain and Europe. Please see Appendix 3 for a summary of analysed literature.

### **2.2.1 Accountancy profession in Britain**

History has shown that the British accountancy profession is the longest standing of any accounting profession in the English world, and has been a blueprint for the development of the profession in many countries, even those with advanced capitalist economies (Carr-Saunders and Willson, 1933; Johnson, 1972).

As Walker and Shackleton (1995) note: "The Second World War and the years of post-war reconstruction were a formative period in the history of the British accountancy profession". Until the 1930s, the organization of the accountancy profession was characterized by an increasing proliferation of accounting bodies, totalling 17 by the first decade of the 20<sup>th</sup> century<sup>9</sup> (Walker and Shackleton, 1995). Among the associations, institutional differences based on the quality and specialities of their respective

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<sup>9</sup> 1. The Institute of Chartered Accountants in England and Wales, 2. The institute of Chartered Accountants of Scotland, 3. The Institute of Chartered Accountants Ireland, 4. The Association of Certified and Corporate Accountants, 5. The Institute of Cost and Workers Accountants, 6. Institute of Municipal Treasurers Accountants, 7. British Association of Accountants and Auditors, 8. The Faculty of Auditors, 9. Association of International Accountants, 10. The Incorporated Association of Cost and Industrial Accountants, 11. Society of Commercial Accountants, 12. Association of Industrial and Commercial Executive Accountants, 13. Society of Management Accountants, 14. Institute of Company Accountants, 15. English Association of Accountants and Auditors, 16. Irish Society of Certified Public Accountants, and 17. Society of Industrial Accountants. Source: Walker, S. P. and K. Shackleton (1997). "A ring fence for the profession: advancing the closure of British accountancy 1957-1970." *Accounting Auditing & Accountability Journal* **11**(1).

memberships emerged; Walker described this as a “diffuse array of accountancy organizations” (Walker and Shackleton, 1995: 467). In the latter part of the 1930s, professional bodies in Britain focused on amalgamating the disparate structures of accountancy organizations. The objective of the re-structure was to create one voice within the profession to enhance their influential capacity as collective and powerful professional associations in British society. In the late 19th century, the need to assert or defend their collective professional status resulted in schemes of national organizations, driven by those who thought that collective advancement would be more powerful than isolated attempts.

However, collective attempts were not successful due to the different agendas of individual associations. The consequences were a disparate array of English accountancy associations, which has been revealed by many researchers (Johnson, 1972; Loft, 1986, 1994; Miranti, 1986; Armstrong, 1987; Miller, 1990; Gallhofer & Haslam, 1991). Through analytical and empirical investigations, these scholars found substantial evidence of closure enforcement, political involvement and state intervention in the accounting professionalization process. As Willmott suggests “Professional associations are *primarily*, but not exclusively political bodies whose purpose is to define, organise, secure and advance the interests of their (most vocal and influential) members” (Willmott, 1986:556).

Through closure attempts by the dominant accounting bodies in Britain (the Institute of Chartered Accountants England and Wales (ICAEW), Institute of Chartered Accountants in Ireland (ICAI) and Institute of Chartered Accountants of Scotland (ICAS), some professional associations (British Association of Accountants and Auditors, Society of Management Accountants) were excluded from the charter-ship due to inadequate qualifications, training and examination procedures for maintaining the high standards of the profession. According to Russell Kettle, a member of the ICAEW, “[I]t would be embarrassing, on application from important companies under the new Companies Act, to consult someone not in the highest calibre” (ACCA, Minutes, 14.12.1948 cited by walker 1995: 483). As accountants performed accounting functions in public institutions, it was thought inadvisable to provide authority to some accounting practitioners to perform as auditors. This exclusionary enforcement led to an establishment of so-called second tier organizations. Those institutions were the Scottish Institute of Accountants

(1880), the Society of Accountants and Auditors (1885), and the Corporation of Accountants Ltd (1881). In addition, the Corporate Treasurers and Municipal Accountants, also established in 1885, merged in 1919 to become the Cost and Works Accountants (Walker and Shackleton, 1995).

During the first decade of the 20<sup>th</sup> century, further expansion of second tier organizations were boosted by the Revenue Act of 1903. The Institute of Certified Public Accountants in 1903, the London Association of Accountants in 1904 and the Central Association of Accountants in 1905, were significant establishments of accounting organizations (Carr-Saunders & Wilson, 1964: 214). This period has been described as one of a “bewildering multiplicity of associations” (Walker and Shackleton, 1995 : 479), in which the “institutional fragmentation of the accountancy profession in Britain has been characterized by the internecine dispute” (Walker and Shackleton, 1995: 469). It was this dispute that meant that the aim of state recognition continued to evade professional bodies.

Thus, there had been several institutional conflicts among professional accountancy bodies in relation to unification – for example, disagreement among ICAEW council members to include the ACCA in the list of institutions seeking authority to practise as public accountants (Walker and Shackleton, 1995). Finally, The Council of the ICAEW considered the suggestion and agreed to hold an informal discussion under the theme of “Time We Go Together” (Walker and Shackleton, 1995). In that discussion, the councils of the respective bodies reached a common agenda on “matters generally affecting the profession”. They decided to continue their dialogue, as well as to invite representatives from two prominent UK associations: the ACCA and the Institute of Chartered Accountants of Scotland (Walker and Shackleton, 1998).

These bodies met and collectively agreed to set up a committee to consider the coordination of the profession, particularly when approaching the government regarding their institutional and other related issues. The first formal communication between the accountancy profession and the British government in relation to organizational coordination emerged when the Secretary of the ICAEW wrote to Sir William Jowitt (the Minister responsible for the reconstruction) in July 1942. The Minister had given his full support to the notion of a high standard of accountancy qualifications in order to ensure that the public would have expert services. Importantly, the Minister stated that:

Accountants should get together and reach agreement as to who is an accountant that he would be prepared to pilot relevant legislation and that if the profession failed to address the issue then the government would do (Walker and Shackleton, 1995:480).

The official message of the ICAEW was not included in the original minutes of the meeting between the Institute and the Minister. A “high standard of accountancy qualification” was the message from the state via the Minister, but this was not disclosed by the ICAEW to the other accounting associations. The president of the ICAEW had an expectation that an ultimate outcome of the discussion would be institutional unification. This agenda was pushed forward by the Co-ordinating Committee, along with the general agreement that, “one representative council who would be responsible for issuing certificates of practice and a supervisory examination body” (Walker and Shackleton, 1995:480).

However, there was an objection to the previous agenda by the Scottish chartered accounting societies. After a series of debates, finally in 1943 agreement was reached to proceed with the separate ‘Public Accountant’ council for Scotland. Finally, “The Public Accountants’ bill was approved by large majorities of members of the institutes represented by the Co-ordinating Committee at an extraordinary meeting on 4 June 1946. It was noted that approval of this bill was “a veritable landmark in the history of the profession”. The president of the ICAEW emphasized that:

...the paramount principle underlying the proposals is that each body retains its separate identity, its separate designations and its separate control... our principal object is to coordinate, by means of the need to obtain a license, all those members of our profession who wish to carry on the practice of public accountancy (Walker and Shackleton, 1995: 481).

Soon after the passing of the Public Accountant’s Bill, numerous problems emerged, particularly in relation to the definition of Accountants and Accountancy. This situation occurred due to controversy over the duties of accountants and a definition of the accounting profession.

‘Public Accountant’ means a person, who carries on a Public Accountancy practice and who, in connection with that practice, offers his services for reward to members of the public, except that it does not include a person who carries on such a practice as part of and as subsidiary to his principle business or practice;

‘Public Accountancy’ means the preparation, investigation, audit and certification of balance sheets, profit and loss accounts and statements of income and expenditure or other similar accounts, or any one or more of those functions (*The Accountants*, June 1946: 305, cited Walker and Shackleton, 1995: 481).

Some of the professional functions, such as tax expertise, were automatically excluded from practice since tax experts were performing accounting functions in the “public” institutions. As a result of accountants’ frustration with the Bill, in 1947 amendments were presented to Parliament through the Board of Trade to establish an Accountancy Advisory Committee that would advise on matters relating to practice. Simultaneously, Company law amendments (The Companies Act of 1947) were made, recommending the practice of corporate auditing only for qualified accountants.

Since the ICAEW represented the Board of Trade it was able to assist in drafting company legislation. It ensured the inclusion of the clause, for instance: “Only the English and Scottish chartered bodies and incorporated accountants should be represented on the committee” (Walker and Shackleton, 1995:483). This constituted a deliberate attempt by senior bureaucrats and chartered accountants to exclude the ACCA, despite the participation of ACCA members on the Co-ordinating Committee. It provides evidence of institutional closure in the British accounting profession even at a relatively early stage of its existence.

Subsequently, a series of attempts were made by the ACCA to be seen in the market with a similar status to other major bodies or at least to integrate with the major bodies during the period 1940 to 1970. However, ICAEW members managed to thwart all such attempts at recognition or integration on the grounds that, the ACCA professional qualifications and training were not sufficient to merit it. Ultimately, the ACCA council decided to remain in the profession as a “closed shop” of practice (Walker and Shackleton, 1998). The negative attitude of the ICAEW can be seen in a statement by Wilkinson, the Assistant Secretary, who argued that “closure could be feasibly and effectively achieved” because in 1948 all companies (except private companies) were included in the legislation to restrict tax work to the “suitably qualified”, through which there was unyielding resistance to recognition of more accountancy bodies by the Board of Trade. Thus, occupational closure was imposed and strengthened by legislative restrictions that defined the eligibility to perform specific accounting functions. Therefore, occupational and institutional closure managed to keep most accounting associations away from public practice based on the suitability of their qualifications and training (Walker and Shackleton, 1995:481).



This example of occupational closure and state intervention through political wings was not unique in the history of accounting professionalization processes (Macdonald, 1985; Lee, 1990). In 1997, Walker and Shackleton uncovered a substantial amount of literature on closure-related studies through their “A ring fence of the profession: advancing the closure of British Accountancy 1957–1970” (Walker and Shackleton, 1998). Macdonald commented that in order to achieve a monopoly, or at least licensure, an occupation must have a special relation with the state (Macdonald, 1985). Macdonald also pointed out that this largely dependent nature might have been inculcated in the mind of some powerful societal groups due to existing political cultures and political power networks. Walker and Shackleton (1995) describe this behaviour as ‘corporate’ bias.

Similar points have been made by Chua and Poullaos in an Australian context in ‘rethinking the profession state dynamic: The case of Victorian Charter Attempt, 1885-1906’. This study, conducted in the state of Victoria, was about Australian accountants acquiring a Royal charter and thus, elevating their status (Chua and Poullaos, 1993).

What occurred in Britain raises issues about the professionalization of accounting in Sri Lanka and, it is hoped, will assist the researcher in finding answers to the research questions. Especially informative is the nature of the political process, the attempts at and motivations for closure, and how some professional bodies responded to threats to their status. A focus on investigating the Sri Lankan accounting professionalization process is the involvement of the ICAEW and the resultant closure during the last five decades (1959-2009).

The next section of this chapter focuses on the accounting professionalization process in the European Region. Literature on the accounting profession and its establishment is reviewed, with the intention of exploring and identifying the relationship of accounting practices with the Sri Lankan accounting professionalization process.

### **2.2.2 Accounting profession in Europe**

This section examines the literature on professionalization of accounting in Germany, France, Greece, Spain, Sweden, Belgium and the Czech Republic. In Germany, professionalization has been closely linked with bureaucratization (Kocka, 1990). An

important part of professionalization occurred within public administration, according to Abbott's observation; professional people first acquired formal occupational structures as civil servants, and they were largely employed in suitable positions by the state during the 19<sup>th</sup> century (Abbott, 1988). Professional certification was obtained by passing state-devised meritocratic examinations.

Thus, in the mid-19<sup>th</sup> century, Germany had state-appointed accounting professionals through state certification rather than professionals from an accounting association. Abbott explains that, because of state examinations, the assumption was that accountants were preparing to acquire their certification after university education. In Germany, there was an implicit 'guarantee' that university education provides adequate knowledge to a graduate to become a professional accountant. However, in the late 19<sup>th</sup> century, this situation changed due to an emerging concept called 'free' professionalism which has similar characteristics to the Anglo-Saxon sociological type of professional accounting education (Siegrist, 1990). University education has been used as its model to develop a professional curriculum. Thus, in Germany, the "free" professional group has remained comparatively weak when compared with state professionals (Brante, 1990). Therefore, it is a widely accepted phenomenon that in Germany the state actively controls both the training and employment of professionals (Siegrist, 1990).

In France, the state was central in deciding upon the industrialization and hierarchy of all professions (Larson, 1990; Ramirez, 2001). A study by Bocqueraz (2001) examines the early development of professional accounting bodies in France from the late 19<sup>th</sup> century, focusing on two professional bodies: '*Ordre des Experts-Comptables (OEC)*', this professional body was under the responsibility of the Ministry of Finance, and '*Compagnie Nationale Des Commissaires Aux Comtes (CNCC)*', who were under the responsibility of the Ministry of Justice. In his study, Bocqueraz points out significant differences between the French and British systems in terms of professional accounting proliferation, institutionalisation and state intervention (Bocqueraz, 2001). Ramirez explored the cultural influential differences which could have shaped the outcome of accounting professionalization during the same period (Ramirez, 2001).

France is a country where the state takes responsibility for establishing institutions to produce its professionals and civil servants (Abbott, 1988), thus, the French accounting profession is strongly influenced by the state (Kocka, 1990). However, France could

claim its unique educational system as its historic contingency. The proliferation of educational institutions issuing highly specialised degrees has resulted in extensive differentiation and fragmentation within its accounting profession (Abbott, 1988). Thus, the French accounting professionalization did not come from the accounting association but from the universities. According to Abbott, the French system instigated an extensive differentiation in comparison to the British system.

The developing French system of education thus imposed on the French system of professions an extensive differentiation, both horizontal and vertical. Horizontally it created a world of relatively specialised degrees attached to specialised functions. Vertically it created sharp status differences. This “Cartesian order”, to use Terry Clark’s phrase, undercut the board foundations that underlay associational professionalism in American and Britain profession did not seek university training to legitimate extant activities, but rather were initiated by the new university degrees (Abbott, 1988:201).

As indicated above, the French accounting professionalization process has similar characteristics to the German process. “In both France and Germany the state created the institutions that trained professionals in order to provide itself with civil servants” (Abbott, 1988 :202). In the same region, interesting evidence can be seen in Greek accounting and auditing practices.

According to Ballas (1998), emergence of the Greek accounting and auditing profession was a collective effort between the state and professionals. However, Caramanis (2002) states that an impact on local accounting practice from international forces which, explores the interconnectedness of national politics with global forces and ramification of this interaction, for the regulation of accounting and state profession relationship. In 2005, Caramanis extended his study to uncover more evidence to strengthen his argument that there was intra-professional conflict in Greece. He found that the Greek accounting profession was controlled by international accounting and auditing firms. As indicated earlier, those firms were closely monitored by international socio-economic actors, hence the indigenous Greek accountants launched a confrontation to acquire their territory (Caramanis, 2005).

Caramanis employs Held’s (1991) framework of, “Democracy, the Nation-state and the Global System” to explain the Greek accounting profession. The study explores changes in the state profession relationship in the era of ‘globalization’, and documents the catalytic role of major states (the USA), politico-economic blocks (the EU), and other

powerful international actors. Caramanis (2002) posits that the politics of international accounting professionalism in the 'globalization' era are becoming more polycentric, with (lesser) nation-states as merely one level of diminishing importance of individualism in a complex system of superimposed, overlapping and often competing national and international agencies of governance. Thus, professionalization is in the hands of globally well-positioned international agents. Development of the Greek auditing profession in the 1990s, with the active participation of a number of supranational organizations and other interested and powerful international agents, illustrates supra-state global governance in the age of 'globalization' (Caramanis, 2002).

Bougen (1997) examined the 1988 Spanish Audit Law, with particular focus on the relationships between auditing and the Spanish state, to illustrate the imminent capacity for the movement of these connections and to consider some of the mechanics of such a moving relationships.

According to Larsson (2005) in Sweden, accounting evolved in terms of political pressures rather than as a response to scandal or a crisis. The Sweden government was successful in imposing this duty on auditors only when it could be expressed in terms of enhancing the working of markets and improving industrial democracy, rather than as a type of 'police' activity. Thus, Larsson further explained that the Swedish state-regulated auditing profession was activated as a result of long-term political influence and policy programs (Larsson, 2005).

In Belgium, soon after World War II, the auditing profession was seen as a state-controlled profession because of strong state intervention into the profession. Although existing expert compatible groups formalize their structure, they are not able to establish an occupational monopoly, due to the fact that the state has set up a separate auditing body. Thus, Belgium study provides unique evidence for the state and profession interconnectedness, and the stronghold of state bureaucrats over the profession (De Beelde, 2002). De Beelde examined the emergence and development of an auditing profession in Belgium in the late 1940s and 1950s. The study examined the main parties involved in the creation of the Belgian auditing profession – the state, the employers and the unions – in which the state maintained a separation between the Belgian profession of independent auditors, the *reviseurs d'entreprises*, and the association of accounting

professionals, the *expert Comptables*, who first attempted to prevent the creation of an auditing profession and then to obtain control over it. The findings suggest that the parties in the debate supported different professional models, depending on what they considered the main role of the auditor to be. Apart from that, the focus of the debates preceding and following the introduction of the profession were on the autonomy and structure of the profession, the services to be provided by auditors and access to the profession.

Seal *et al.*, (1996) comments on the overall structural changes of accounting and auditing legislation in the Czech Republic in post-1989 transitions, noting that the 'Czech accounting profession is quite different from those found in Western Europe'.

The transition is characterised by a changing balance between the guiding principles of state, market and community within which Czech accountants and auditors are visualised as pursuing the twin and related strategies of constituting a professional market and identifying themselves with the regulatory power of the state. The analysis of the relationship between the professions and the state and market orders is supplemented with an appreciation of the special role played by human agency and transitional institutions and enterprises in a society undergoing rapid change (Seal *et al.*, 1996:485).

As already indicated, on many occasions in history the professions were introduced by colonial masters in many parts of the developing world (Perera, 1975; Chua and Poullaos, 1993; Annisette, 1999; Davie, 2000; Uche, 2002; Sian, 2006; Yapa, 2006; 2010). Thus, the transformation or perhaps the introduction of professional accounting into the developing world could have been from the said masters. Thus, attention must be paid to understanding the appropriateness of it to the independent indigenous economic activities. According to Seal *et al.*, (1996) pre-transitional professional accounting development was more significant than that under the multinational Big Six<sup>10</sup>, because Big Six domination reduced national interest. This domination indirectly provided opportunity for the ACCA to enter into the market and produce professional accountants locally. Strouhal and Kallaste (2010) indicate that the Czech Republic produced professional accountants based on ACCA until 2007. In 2009, the country established its own self-governing body to accredit professional accountants (Strouhal and Kallaste, 2010)

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<sup>10</sup> 1. PricewaterhouseCoopers LLP. 2. Deloitte USA LLP. 3. Ernst & Young LLP. 4. KPMG LLP. 5. Grant Thornton LLP. 6. BDO Seidman LLP.

### 2.2.3 Accounting professions in other developed nations

This section investigates the literature on accounting professionalization in other developed nations such as Australia, New Zealand, Canada and USA. In such countries, professionalization projects are generally described as spearheaded by systematically organised groups of accountants, who are motivated by a preference to monopolise the accounting services market (e.g. Kedslie, 1990; Macdonald, 1984; Miranti, 1986; Previts & Merino, 1998; Richardson, 1987; Robinson, 1984; Walker, 1991, 1995; Willmott, 1986; Lee, 1995; Veylayutham and Perera, 1996; Perera *et al.*, 2001).

Studies of the accountancy profession in Australia have examined market closure (Chua and Poullaos, 1993, 1998; Poullaos, 1993, 1994) and the emergence and decline of professional bodies (Carnegie, 1993). An Australian study investigates an attempt of the incorporated Institute of Accountants in Victoria to obtain Royal charter, and uses evidence to challenge some existing theories within the sociology of the professions. It concludes that crude views of occupational monopoly or closure, and tight coupling of action, interest and outcome, are inadequate to explain events, and that outcomes are better explained as result of interactions between the state and the profession (Chua and Poullaos, 1993,1998). Thus, in the Australian accounting professionalization process, the Royal charter attempt was successful and now both practicing and non-practising accountants are included into the Royal charter (Chua and Poullaos, 1998). Chua and Poullaos (2002) examined the process again and commented that the concept of globalization has changed the shape of imperial interest, and it's no longer able to use the dominate in the field of accounting, however, they have changed strategies and talked about reciprocal recognition and common portal and complete portability instead (Chua and Poullaos, 2002).

Studies conducted during the last two decades suggest that in the early stages of globalization there was a strong link with imperialism, according to Chua and Poullaos (2002):

In the late nineteenth and early twentieth centuries, as empires erased national borders the CA (Chartered Accountancy) associations at the centre sought strenuously to present the dilution of their brand name by maintaining Empire-wide borderlines. In today's allegedly post-colonial world, as technology and triumphant trans-national liberation erase borders, the CA associations are again concerned about the viability of their brand. But instead of building longer, global

fences they are now talking of ‘reciprocal recognition’, ‘a common portal’ and ‘complete portability’. Perhaps, the Empire does strike back after all (Chua and Poullaos, 2002:439).

A subsequent attempt by the Australian Corporation of Public Accountants (ACPA) to acquire a Royal charter – ‘an incontrovertible sign of professional status’ (Poullaos, 1993) – was characterized by a similar political struggle, lost initially on the grounds of diplomatic considerations. The self-interests of legislators who wanted to defend their authority, and the opposition of other accounting bodies who were concerned about their possible loss of status and market, saw the struggle drag on for four decades. Finally, however, a group of Australian accountants succeeded in acquiring a Royal charter in 1928. Poullaos reported that ‘the ACPA eventually succeeded in getting its charter’ (Poullaos, 1993; Poullaos, 1994). This argument was supported by the same researchers in 2002. They reported that self-governing colonies in Canada, Australia and South Africa, due to colonial associations, borrowed heavily from the British model (Perera, 1975; Chua and Poullaos, 2002; Poullaos and Sian, 2010; Yapa, 2006; Sian, 2007; Annisett, 2010).

Another Australian study by Carnegie and Napier (1996), argues that within accounting there have been deference interests and agendas within professional accountants involvement of professionalization processes, and this been expressed in such a way to differentiate the motives of professionalization processes to fulfil their desires. For instance, the origin of professional bodies and failures of merger of professional accounting bodies between different nations. Thus, these studies enhance the understanding of different structures and value systems (Carnegie and Napier, 1996). Again Carnegie and Parker (1999) examined the salient features of intra-professional rivalry. That study found that the proliferation of professional accounting bodies made intra-professional rivalry an important force in shaping the structure of the accountancy profession (Carnegie and Parker, 1999). In addition, Carnegie and Edward (2001) noted the further possibility of intra-professional rivalry as a determinant of organizational fusion.

Based around a prosopo-graphical study of the 45 founders of the first professional accountancy body in the colony of Victoria, Carnegie and Edwards (2001), use critical-conflict analysis to examine the trajectory of the professionalization project of accountants in that location. Poullaos (2010), in his study of cross-border profession-state

interaction between the imperial centre (Britain) and part of the colonial periphery (Canada, Australia and South Africa), discussed the unsuccessful cultural imperialism aspect of the ICAEW (Poullaos, 2010).

In New Zealand the Incorporated Institute of Accountants of New Zealand (IIANZ) was set up in 1894. At the inception of the IIANZ, membership was awarded without examination until 1898 which saw the introduction of entrance examinations (Veylayutham and Perera, 1996). Due to tight restrictions for entrance, the government presented a Bill in the Parliament to transfer the audit functions of all companies to the Government Audit Office – this was unsuccessful. Thus, the professional body (IIANZ) was given the authority to conduct company audits and it has been mandatory to get companies audited for all companies since 1901. This decision helped boost the accounting profession in New Zealand towards autonomy. With this, development the IIANZ sought legitimacy for control and to regulate the practice. As a result, in 1908 the New Zealand Society of Accountants (NZSA) was set up by an Act and IIANZ was replaced by NZSA; in 1958, by revising the Act, more self-regulatory authority was given to the NZSA. The NZSA and Australian Institute of Chartered Accountants (AICA) have had a reciprocal agreement on practice in both countries. In 1984 New Zealand embarked on a comprehensive program of economic reform (Perera *et al.*, 2001: 154). Thus, there was major reform in the structure of the accounting profession, to recognize local degree qualifications and other local qualifications as exemption from for accreditation. It was said that the NZSA had released its restrictions for entry. This structural reform of the body has been identified as ‘De-professionalization’ (Veylayutham and Perera, 1996: 459). In 1996 the New Zealand Institute of Chartered Accountants was established by an Act of Parliament; NZSA was replaced by the New Zealand Institute of Chartered Accountant (NZICA). However, in the recent professionalization process, the involvement of state bureaucracy reduced self-regulatory controlling power of the profession in New Zealand, but did not completely remove it (Veylayutham and Perera, 1996; Perera *et al.*, 2001). It was stated that both the state and the profession reform programs were driven by market-oriented approaches. Thus, as Freidson (1970) and Larson argue (1977), the relationship between state and profession is mutually positive and constructive (Freidson, 1970; Larson, 1977). Therefore, the New Zealand accounting professionalization process has been a strategy of ‘accommodation



and inclusion rather than exclusionary closure' which is somewhat different to traditional accounting professionalization processes (Perera *et al.*, 2001: 175).

According to a study in the USA, professional rivals were defeated or if unable to be defeated, alternatives arrangements were made to absorb rivals by merger. Lee (1995) described that there were successful and unsuccessful attempts to obtain state enforced privileges such as 'monopoly by registration' (Lee, 1995). Preston *et al.*, (1995) commented that the USA accounting profession were criticized for quality issues until the later part of the 1980s. Thus, accountants struggled to legitimize their profession within the social realm. This happened due to a very old code of conduct that lasted over eight decades until it was changed in 1988 (Preston, *et al.*, 1995). Lee (1995) explored the USA accounting professionalization process by comparing it with UK process. Lee found out that the USA profession had been used to satisfy self-interest rather than public interest (Lee, 1995).

In Canada it was revealed that exclusionary closure has been used by people originating from Britain and Ireland through early accounting professional associations specially based on demographic characteristics of initial leadership in the professional associations in Canada (Edwards and Walker, 2008). Interestingly in the recent professionalization process, the closure has been unsuccessful in Canadian accounting profession. According to Richardson (1987, 2010), the British-introduced Companies Acts significantly influenced the Canadian accounting professionalization process. In his study (Richardson, 1997:635) of the profession in Canada, he found that market closure was unsuccessful in the Canadian accounting profession. The professional accounting association failed to develop a cognitive basis sufficient to standardise the training of practitioner and close the profession. He further argued that the profession was influenced by French and American imperialism too (Richardson, 1987, 2010). Simmons and Neu (1997) examined how professional organizations interpret external economic, social and political changes to membership and how researchers reflected occupational elite's views through their observations. A move away from "antigovernment" editorials towards technical ones is linked to a change in the regulatory status of the professional bodies (Simmons and Neu, 1997).

## **2.3 Development of accounting profession in British & French colonies and Peoples Republic of China (PRC)**

In the 19<sup>th</sup> century Britain became a pioneer of modern professional accountancy (Parker, 1989: 7) and the British model became a blueprint for the colonies through the expansion of the Empire. As a result, all the English speaking countries and their professional associations emerged as followers of the British model (Parker, 1989). This has been supported by Annisette (1999), citing that in many British colonies the development of accountancy has been a significant phenomenon of the mid and late 20<sup>th</sup> century. Parker (1989) suggests that professional accounting was exported from Britain to its colonies in two main ways: i) the idea that professional accounting was exported and local accountants formed their own associations on the British or some other model, ii) British accounting qualifications were exported and local accountants formed local branches of a British body in their own country.

Annisette (2010) expressed her views on the dichotomy of accounting, which includes professional academic arms seen as two distinct disciplinary spaces which could be explained as British legacy (Briston and Kedslie, 1997; Annisette, 1999; Annisette, 2010). Johnson makes some pertinent points in his writing on the ‘development of professional occupation in British colonies’ (Johnson, 1973). Arguing that professionalization came to colonies through their colonial masters, he stresses the close nexus of power and the professional occupation:

This rosy view of the professions as democratic and humanising agencies in an otherwise technocratic age has been transmitted, without too great a violation of the underlying thesis, to the underdeveloped world—albeit without the aid of the sociologist of the professions. In the context of underdevelopment the emergence and expansion of professional occupations has come to be regarded as a necessary condition for economic growth—the aid programs of the rich countries are noticeably predicted on this belief—whole as an educated, relatively independent and politically sophisticated group, professionals are often viewed as constituting the vanguard of political development; particularly where democracy, in some form, is the desired goal (Johnson, 1973:281).

As Johnson explains, the term ‘modernising’ and ‘western educated elite’ become popular among colonies because when locals return after education they were broadly identified as professionals in other words they were recognized as modernising elites. Therefore, modernising elites have been subjected to discussion in most of the professionalization stories of colonies. Soon after westerners conquered and occupied the

colonies, they started to achieve their goals through initiating their own investments and business activities (Annisette, 2000; Uche, 2002; Bakre, 2005; Caramanis, 2005; Yapa, 2006). In most of the colonies, they developed a close nexus with the urban middle class bourgeoisie, offering them many opportunities to maintain loyalty to the western interest. As a result, social stratification was created and perpetuated and the 'western educated elite' emerged. In this respect, the following note from Johnson is important:

It is generally accepted the specialised skills of the accountant, engineer, doctor and lawyer, etc., are a necessary condition for economic advance, but such expertise is normally accorded only a secondary role in the process; of primary importance are the modernising values inculcated by 'western education' and expressed through professional organization and practice (Johnson, 1973: 283).

A 1959 study of professional elite members, undertaken in Nigeria, provides a unique example of elite professional members dominating their profession through training:

A study of the Nigerian 'elite' carried out in 1959, claimed that among those categorised as 'elite' members 'the dominance of the professions is at once apparent' and that the surest occupational road to top elite status is to obtain professional training and then seek public office (Johnson, 1973: 283).

This transformation of local bourgeoisie into westernised elite professionals was a common factor of many colonies across the globe, seen in the following examples.

Firstly, Sian's (2006) study explored the concept of closure and its application to the development of the Kenyan accounting profession by examining the construction of the institutional arrangements for accountancy from 1970 to 1978, within a political, social and historical context. The findings suggested that it was vital to include, not exclude, all qualified accountants in order to ensure that a viable association was formed. It needed to include existing neo-colonial societal divisions along racial lines and the demands of the newly-established Kenyan state, whose political ideals played a significant role in determining the basis of inclusion and exclusion (Sian, 2006).

The Kenyan accounting profession was controlled by expatriate British professionals who excluded locals for many years until the country gained its political independence in 1963. The national government managed to reverse the exclusionary closure and facilitate the entry of Africans through the introduction of new accountancy education and training programs (Sian, 2007). It is fascinating to consider the motives of the Kenyan Government with regards to indigenous professionalization. "Here, the

emergence of the new state was inextricably linked with the moves towards an indigenous profession and the Africanisation of the profession in Kenya was pivotal for long term economic development” (Sian, 2007:869).

Secondly, in Trinidad and Tobago, the national government encouraged the entry of indigenous accountants into the profession, and also laid the foundation for the local accounting body. However, due to presumption and preservation of the privileged class and the pursuit of status in accountancy, foreign qualifications were considered to be superior to anything attained locally (Annisette, 1999).

Thirdly, in Nigeria, the state influenced the accounting profession, which means the Nigerian community expectations, interest groups and government actions impacted on the accountancy profession. Uche (2010) also described how the British imperial influenced “ the ACCA Treat” on the company legal system in Nigeria coupled with the establishment of dominant British businesses in the country (Uche, 2002). Uche (2010) also explored the challenges to the accounting profession in Nigeria resulting from the influences of the country’s colonial history, its level of economic development, the accounting needs of the multinational enterprises, and the interests of government and local businesses. The study’s specific focus was on how the country’s colonial heritage influenced the development of company law in Nigeria along the lines of British law. The study concluded that Nigeria’s colonial heritage, which included the emergence and dominance of British businesses in the country’s economic landscape, influenced the influx of British accounting firms and accountants and the structure of the emergent accounting profession (Uche, 2010).

Most developing countries including the Association of South East Asian Nations (ASEAN), have adopted colonial legislation without due regard to their local conditions, even after their independence (Yapa, 1999). As stated by Briston:

In a number of countries, of course the British influence is very long standing, and almost all of the colonial territories in which any substantial degree of industrial development took place under British rule will have had imposed upon them a British Companies Act with the usual reporting and auditing requirement (Briston, 1978: 108).

In South Africa, the dynamics of exclusion experienced by black chartered accountants suggest that closure operated in two ways. First, deeply embedded racial ideologies

defined the boundaries of the professional society. Secondly, these ideologies manifested themselves in individual acts of discrimination and bigotry. Even after apartheid crumbled, white supervisors' notions of racial superiority continued to define the experiences of black trainees and exclude them from the professional "community" (Power, 1999) in much the same way as it had in earlier periods (Hammond, *et al.*, 2009).

Following her earlier study in 1999, Susela (2010) argued that Malaysia's colonial legacy affected the nature and procedure of professional transformation. She observed that there was power struggle between the Malaysian Association of Certified Practicing Accountants (MACPA) and Malaysian Institute of Accountants (MIA) in relation to accounting practice. In addition, the increased globalisation and internationalisation of the accounting profession brought about further challenges for the MACPA and the MIA. The MACPA (established in 1958 and dominated by elite Chartered Accountants – CAs) was controlled by British professionals who created an unpleasant environment, and led to the establishment of MIA (mainly ACCA qualified), established in 1967 to produce local professionals. Thus, there were power struggles between MIA and MACPA (elites) to capture the Malaysian professional accounting market. Susela (2010) saw these struggles as an indirect empire connection (Susela, 2010). Susela (1999) offered insight into the conflicts and tensions within the Malaysian accounting profession and the power struggles therein to dominate the accounting standard setting process between the MACPA and the MIA. That study illustrated that the notions of professional, state and corporate interest (among others) had become embedded in the Malaysian standard setting processes, through a historical analysis of the controversy over goodwill reporting standards. Her findings suggested that the accounting profession in Malaysia was developed along the lines of the British model and was actively involved in the standard setting process and other regulatory activities, in a corporatist relationship with the Malaysian state.

A study by Uddin and Hopper (2001) on the accounting profession in Bangladesh, explored whether or not the accounting profession contributed to the economy during the nationalization and privatization processes in the country. However, this study found that during the nationalization, existent accounting systems were marginalized and strict controls were exercised through political power by the idealized hegemonic regime. After privatization accounting controls became more significant and were imposed in a

coercive manner. Thus they argue that one effect of privatization was an unjustifiably unfairness for the lower strata in the society (Uddin and Hopper, 2001).

Yapa (1999) analysed the professional accounting environment in Brunei, Darussalam, particularly the organization of practitioners. As such, the lack of a powerful accounting profession in Brunei was explained. Also, the question on whether such a profession might emerge, and be capable of adequately gauging and safeguarding the public interest of Bruneians, was discussed. The findings suggested that the accounting profession in Brunei had not been able to take appropriate measures to align the profession's status with that in other countries, due to the fact that foreigners dominated the Brunei Institute of Certified Public Accountants (BICPA) and did not have the authority to build relationships with state officials over time, as did the ICAEW in the UK with the Parliament, the Board of Trade, and other state agencies. Consequently, the BICPA was autonomous from the state, but had no role in the regulation of accountants and accountancy in the country, which belonged to the state (Yapa, 1999).

Sukoharsono (1996) stated that, even though the Indonesian accounting profession was influenced by the Dutch, there was no evidence of Dutch domination on their accounting profession. At present, the Indonesian accounting firms and national accounting professional body (IAI) are under government guidelines (Sukoharsono and Gaffikin, 1993).

Dyball *et al.* (2007) wrote about the emergence of the Philippine accounting profession which was a failure and unable to create a competitive market for public accountants' services or maintain the autonomy. But it was more likely native resistance by local elites through the Act, and it is considered as an attempt to construct local accountancy profession by moving away from American tradition (Dyball, *et al.*, 2007).

Davie (2000) conducted a study on the British-based accounting profession in Fiji. The study explored how British imperialism dominated and controlled the indigenous Fijian elitist structure by enforcing the British model onto the local accounting profession. This elite-dominant profession was used as a mode of power over the indigenous elitists. Thus, the accounting system was used as an integral part of the imperial policies and activities for empire expansion (Davie, 2000).

India was also a colony of Britain for more than 100 years. The Companies Bill in 1930 required a local body to practice within India; as a result the Indian Accountancy Board (IAB) was established in 1932 which was an autonomous body following the British model. Soon after independence in 1949, the Institute of Chartered Accountants of India (ICAI) was established to replace the IAB (Verma and Gray, 2006). Verma found that there was conflict among two groups regarding 'charter', because one group claimed that British-qualified British nationals did not give mutual recognition to professionals who qualified from the ICAI. The other group, represented locals qualified from Britain and argued that, if 'charter' were to be given to a local body, that would adversely affect to their qualification (Verma, 2010).

Hao (1999) examined the changing balance of the accounting profession over time, between the State, the Market and the Community, (as organising principles) in the organization and regulation of accountancy practitioners in Peoples Republic of China (PRC) during the 20<sup>th</sup> century. The study argued that, while the balance between the state, the market and the community is shifting, the state maintained quite a degree of influence over Chinese accountancy through its control over Chinese accountants. The findings suggested that, although foreign influence played a larger role than that of the local community and market forces in the re-emergence and development of the CPA profession in China, the Chinese state had sought to direct and supervise foreign influence (Hao, 1999).

Yee (2009) noted that the PRC use their hegemony and authority nationwide, therefore the public accounting profession is a totally state-controlled profession which has successfully mobilized the Chinese accountants in implementing their economic-related agenda (Yee, 2009). Yee claims, in relation to the PRC, that there is a strong link between the accounting profession and the state. "Implicit in the vertical and unequal relationship are mutual but complementary obligations – a duty of benevolence and care on the one side, and a duty of obedience on the other". The new political ideology of Deng's era created a favourable and supportive environment for the development of the accounting profession (Yee, 2009). Xu and Xu (2003) observed that the status of public associations in the PRC depended on their role in the political arena.

Cambodian and Vietnam professionalization trajectories have shown similar characteristics when compared with the professionalization of accounting in the PRC. Both countries were colonies of the French, thus, the colonial master introduced similar models of practices to their colonies. The Cambodian trajectory involved suppression and re-emergence of the accounting profession. Despite the French domination and communist Khmer Rouge (KR) disruptions, accounting education was characterized by the setting up of a local accounting body sponsored by the state. However, Huot (2008) in her doctoral study explored the British influence on the accounting profession through Big 4 firms, where local qualifications were being rejected in the modern business community which embraced British qualifications. Bui (2010) described the case of Vietnam to argue how the state played a predominant role, while the balance of the market, the community and the state were shifting towards the different periods of time. The French accountancy profession has not shown a tradition of becoming involved in colonial outposts as did the UK-based ACCA. As such, the French influence on accounting in Vietnam during their domination was very limited. Thus, it is suggested that the development of Vietnamese accounting is unique, as the State plays an influential role in the professionalization process of accounting in the country. Thus, the market and community forces remain under control of the State (Bui, 2010).

Yapa (2006) examined the Sri Lankan accountancy profession, demonstrating that an agenda of closure had been pursued by the ICASL, through seeking to restrict the supply of public practitioners. He concluded that the Sri Lankan accounting profession could be characterised as being beset by cross-border competition between British institutions, the CIMA and the ACCA, seeking to exert influence within a former British colony, and a local organization, the ICASL, concerned with achieving closure over practitioners in relation to public accounting services. Further, Yapa (2010) examined the rise of accountancy in Sri Lanka and the influence of the British Empire on its organization, ranging from the Institute of Chartered Accountants Act of 1959 to 1977. His study focused on the competing groups within the profession; these were the 'elite accountants' with British accountancy qualifications who set up the ICASL, and the 'non-elite' registered accountants who took the examinations of the local accountancy board, graduated from a local university and formed the lower tier in the profession. The findings revealed that during 1959 to 1977, the elite accountants were able to resist all



pressures to expand the number of Sri Lankan ‘qualified’ accountants, did not train accountants for any arena other than public practice, nor did they provide a professional career path and social mobility for poorer Sri Lankans.

This section reviewed the development of the accounting profession in British and French colonies; it discussed how professional promulgation took place in Asian and African countries. This section also attempted to describe the ‘elite tradition’ domination within the accounting profession, which was helped by state-enforced privileges (West, 1996). Apart from colonial influence on professionalization, this section also discussed the Chinese accounting professionalization process in brief, to understand how the PRC hegemony influences the accounting profession. The next section discusses the relationship between the state and the profession.

## **2.4 The relationship between State and the profession**

In relation to the relationship between the state and the profession, Ballas (1998) contributes to the literature on accounting professionalization with an explanation of how the Greek auditing profession was initiated by the Greek state and was considered an effective instrument of social management rather than an effective instrument in serving the needs of capital. Ballas (1998) studied the auditing profession in Greece and how it was used by the state to further its strategic interests during the late 1940s and early 1950s. The findings showed that auditing was perceived as an instrument of both economic and political control as well as a legitimatising device for the Greek government. The overall argument was that the professionalization project for auditors was initiated by the Greek state because auditing was perceived as an effective instrument of social management to establish its authority rather than as an instrument to serve the needs of enterprises or the profession itself.

In Nigeria, Uche (2002) investigated the accounting professionalization process and explored the relationship between the state and the profession. He looked at how the state had influenced the process of developing the accounting profession by expediting the process of in the country, which addressed the national needs (Uche , 2002).

Yee claims that in the PRC there is a strong link between the accounting profession and the state: “Implicit in the vertical and unequal relationship are mutual but complementary obligations – a duty of benevolence and care on the one side, and a duty of obedience on the other” (Yee, 2009: 89). The new political ideology of Deng’s era created a favourable and supportive environment for the development of the accounting profession. The PRC practices its hegemony and authority over the nation, therefore the public accounting profession is totally state-controlled and successfully mobilized Chinese accountants in the implementation of economic agenda of the PRC (Yee, 2009). Xu and Xu (2003) commented that the status of public associations in China depended on their role in the political arena. De Beelde (2002) makes similar comments on Belgium, noting that the State was the dominant force in organizing the auditing profession.

In Australia, the elimination of the Australian Accounting Research Foundation (AARF), which was under the Australian accounting profession (ICAA and CPA), was a major step taken by the state to reduce the control of the accounting profession. As Birkett and Evans (2005) commented, professional power and occupational control has shifted from the profession to the state due to high levels of state intervention and higher education involvement (co-operation, conflict and competition) (Birkett and Evans, 2005; Deegan, 2010).

## **2.5 Universities and the accounting profession**

In an empirical study of “Imperialism and the Professions”, Annisette (2000) examined the education and certification of the institute of Chartered Accountants of Trinidad and Tobago (ICATT), which was founded on British-based ACCA control and domination with the help of the local elites.

The study has shown that, except for a brief period in its history, the emerging T&T profession consistently marginalized the indigenous University, which did appear eager to practice in the education and certification of the country’s accountants (Annisette, 2000: 655).

The Trinidad and Tobago university system is somewhat similar to the British model due to its colonial links, which means that the university historically played a minor role in

professional education and training of accountants. Interestingly, it was noted that the ICATT was surrendered by the UK-Based ACCA (Annisette, 2000: 655).

The study showed that the ACCA strategy was successful due to fact that there was strong support from local accounting elites because they perceived that to be competently involved the profession, they required accountancy knowledge from British education. Finally, Annisette concluded her study by expressing that the Anglo-American multinational accounting firms were able to dominate the T&T market, and closure was used to control the university accounting education. The T&T local elite accountants developed strong connections with the UK-based ACCA, through their local institute; “Tied to the strings of the ACCA” (Supersad, 1995; Annisette, 2000).

Annisette (2000) describes how the ACCA collaborated with the local elite group of accountants in T&T (Local Institute) and controlled the production of accountants. The elites excluded individuals from membership on the basis of class, gender and race. Annisette found that professional education, examination and certification played a major role in demarcating and defining the boundaries of the profession, both in terms of its membership and in terms of its knowledge-base (Annisette, 2000). She further argued that the ICAEW, ACCA and CIMA as global agents of accounting and these accounting bodies possess higher level of knowledge through which they dominate locally and sustain and maintain a high status by keeping the university accounting education from the distance (Annisette, 2000).

In her study, Annisette (2003) discovered that among professionals there were particular forms of conflict during the post-independence period, with non-white accountants having to seek employment with the state rather than in public practice, and the professional body excluding Master of Science (MSc) in accounting graduates, associated with social actors defined as “black”. This finding suggests that in other colonies, non-white involvement in professional accountancy was less and lagged behind that of medicine and law (Annisette, 2003).

According to Birkett and Evans (2005), before World War II there were only a few established accounting courses offered by universities and technical colleges in Australia (University of Adelaide, the University of Melbourne and University of Queensland).

Exemptions have been given to some subjects offered by these universities by the Commonwealth Institute of Accountants (CIA) and Federal Institute of Accountants (FIA). During this time technical college accounting courses were not recognized by the CIA until the Commonwealth Reconstruction Training Scheme (CRTS) intervened and allowed some subject exemptions.

Thus, the control of accounting education lay firmly in the hands of the accountancy institutes, who were the gatekeepers to all who wished to enter the occupational associations (Birkett and Evans, 2005:127).

During this time, the Commonwealth government's intervention for social and economic reconstruction disrupted the established pattern of occupational control of accounting education. This reform provided much authority to produce accounting graduates to join the profession. This power shift destroyed the institute's control and compelled it to negotiate with the state and higher education institutions to establish a formalized relationship between the two institutions CIA and FIA (profession), state and higher education. Later FIA and CIA were renamed the Institute of Chartered Accountants in Australia and Certified Practising Accountants respectively (ICAA and CPA-Australia). This was considered the foundation for future co-operation, conflict and competition within the professional accounting promulgation in Australia (Birkett and Evans, 2005).

According to Bakre's work in the West Indies, the university degree programs conducted by the local universities were downgraded by British professional bodies. Accordingly, the UK-based ACCA attempted to maintain the professional market with the help of elite professionals, and deliberately undermined the quality of the MSc accounting degree, in order to maintain their superiority (Bakre, 2006):

The ACCA's assessment downgraded the University of West Indies (UWI), Mona, M.Sc. Accounting degree programme, which was originally equated to the level III of the ACCA's qualification(except for two papers which were not allowed for exemption under UK law), to the equivalent of level II of the ACCA's qualification. ... Consequently, in 1986, the ICAJ council withdrew its recognition of the UWI, Mona, M.Sc. degree in accounting as a qualification for the membership of the ICAJ (Bakre, 2006:3).

According to Annisette and Kirkham (2007), the relationship between universities and the ICAEW has always been problematic. However, there is evidence available on the professionalization process in the medical, engineering and legal professions to say that

university education is a key to success in many professional fields. Interestingly, in the case of the ICAEW, the dysfunctional relationship between universities and the institute is believed to be the main reason for the success of the British accounting profession. Professional training and examinations have been used as strong controlling mechanisms by the elite group. The present study has tried to answer the question of how professional bodies have used their power to restrict the entrance of accounting graduates into the profession. Although more recently the ICAEW, acting strategically, has allowed graduates to enter the profession; it has still managed to maintain its professional controllership within the professional environment (Annisette and Kirkham, 2007). Larson stresses the importance of formal education in the development of the privileged economic and social status of professions (Larson, 1977). In many nations, university-based professional education programs are typically subsidized by the state. Thus, it is the state that enables this occupational empowerment: ‘the creation of professional exchange value ultimately depends upon the state or, more precisely, upon the state’s monopolistic appropriation of a social system of education and credentialing’ (Larson, 1977:211).

## **2.6 Domination of the accounting profession by British professional bodies**

The domination of the accounting profession in former British colonies has been a significant contribution to the accounting profession during the past few decades. The UK-based ACCA has indeed attempted to uphold the professional market with the help of local elite professionals in order to maintain their superiority (Bakre, 2006). There is evidence that the British accounting bodies overwhelmingly influenced the process of accounting professionalization in both settler and non-settler colonies of Britain. In a study conducted in Jamaica, Bakre (2008) found a strong link between British professional accounting bodies that could sustain and legitimise the expansion, maintenance and control of colonies for the benefit of the British accounting bodies. In the accounting professionalization process, this relationship between colonies and Britain also encouraged the parent body – for example the ACCA – to continue to enjoy its uninterrupted access to the accountancy market in Jamaica when it was a colony of Britain. Thus, support from the global capitalist elite members of the Institute of Chartered Accountants Jamaica (ICAJ), who favour internationalisation, continues to

guarantee the ACCA its control of the ICAJ, the accountancy market in Jamaica and, indeed, of the entire Caribbean (Bakre, 2005).

Bakre further stated in his 2010 study, that post-colonial Jamaican national capitalists formed a system strategically to absorb the surplus from the labour force through various labour relations, which support the ACCA promulgation within Jamaica (Bakre, 2010).

Bakre noted that the first attempt at localisation of the ICAJ was a failure because influential minority members in the ICAJ and the UK-based ACCA continuously used their power to be the dominant organization of accounting in Jamaica (Bakre, 2006). Similarly, the second attempt was also a failure because, as before, the ACCA had taken full control over the profession through influential and powerful minority members (Bakre, 2006).

In Nigeria, similar to Malaysia, there were two groups of accountants: ICAEW and ACCA. The ACCA were in the majority and they initiated the formation of the Institute of Chartered Accountants in Nigeria (ICAN). Due to training restrictions in the ICAEW, the popularity of ACCA qualifications among Nigerians linked with the structure of the ICAN. It shows how ACCA dominated the accounting profession in Nigeria during the 1960s (Uche, 2002, 2010). Apart from the Nigerian ACCA holders wanting to develop a national body (ICAN) to bring all accounting professionals into one body to equalize all qualifications (i.e. ACCA, ICAEW, ICAI and ICAS etc.), the ICAEW qualified accountants wanted to have charter-ship only for themselves (Ogutuga, 1990, 43); thus at that time there was conflict and competition among ACCA and ICAEW members to hold the strong position within the local environment. Thus, according to Uche, in Nigeria ACCA did not have much power until the post-independence local Association of Accountants in Nigeria (AAN) made arrangements to accept all foreign qualifications under one local qualification and equal status categories; 'this suggestion was welcome by the Nigerian local ACCA branch (Wallace, 1992:35). However, the local body qualification was not recognized as ACCA, as a result again ACCA become popular in Nigeria. Finally, ACCA's popularity as a Global Body, based on their localization strategy, allowed them to dominate the Nigerian accounting profession (Uche, 2002, 2010).

The Malaysian Association of Certified Public Accountants (MACPA) (this body represents CAs from the UK and Australia) did not recognize the Australian Society of Accountants (ASA) and ACCA. Thus, the state encouraged these two (ASA and ACCA) professional representatives (local member groups) to set up new body. As a result the Malaysian Institute of Accountants (MIA) was set up in 1967. This suggests that the MACPA, as an autonomous body, and the MIA operates as national body but does not have status as the MACPA in Malaysian accounting environment. This means that the MACPA has greater control over the profession than the MIA. The reason for the controllership may be because the MACPA is with the Big Six and MIA was given only a little support from the Big Six firms; there were mainly smaller firms behind the MIA (Susela, 1999, 2010). This is reminiscent of the British model that has been exhibited in many parts of the world. Therefore in Malaysian case, MACPA dominate the profession through power from the Big Six (Susela, 1999, 2010).

## **2.7 Summary of the literature**

This section has covered literature on professionalization in developed and developing countries. The literature suggests that there was evidence in the UK of an evolving accounting profession over more than 150 years. For example, the British accountancy profession is the longest standing of any accounting profession in the English world. The main feature of the British accounting profession was to create one voice and maintain status and control within the profession to enhance their influential capacity as collective and powerful professional associations in British society; class-based social closure related studies have been conducted in many parts of the world including in British colonies. In these capitalist societies, privileged elites agree with stratified social class systems, even though there are some controversies about such systems, which create controlling, exploiting, perhaps conflicting environments in the modern world. However, Weber's power-centred class system is rejected by scholars due to it being too narrow in scope. This social closure is similar to the Sri Lankan story, because Sri Lanka was a British colony for more than 150 years and evidence suggest that social closure has been existed when it was colony (Perera, 1975; Yapa, 2006). Thus, this closure related elements still can be seen in the Sri Lankan accounting professionalization process.

The European nations such Germany, France, Greece, Spain, Sweden, Belgium, and the Czech Republic formulated state-appointed accounting professionals through state certification, control and accreditation which is contrary to the UK where the professionals were accredited through the accounting associations. State sector base professional promulgations can be seen in German and French colonies such as Vietnam, Cambodia and Thailand, thus, these trajectories are not directly related to the Sri Lanka case.

After careful study of UK and other developed nation's professionalization processes, it was revealed that there were common accounting professionalization trajectories in the British-based developed settler colonies such as Australia, Canada and New Zealand. These countries followed the same British system of accounting and later they changed the profession according to their local needs. Sri Lanka is a British non-settler colony but interestingly local elites perpetuated British tradition by maintaining monopoly of practice, whereas above settler colonies managed to develop their own professional bodies independently from British bodies' involvement.

Sri Lanka provides a suitable local context to examine these issues of British influence. Based on the literature presented above, this research follows the seminal work done by Willmott (1986), Abbott, (1988) and Macdonald (1985, 1995) in order to add knowledge to the existing literature based on the sociology of professions. By following the grand theory of Sociology of profession the study has decided to apply class based social closure as one of the sub-sets of the critical theory.

Thus, this chapter reviewed literature relevant to the study of the accounting profession in the world in order to identify the research gap in the Sri Lankan context to enable the finding of a suitable theory. Therefore, after reviewing most of the seminal studies on accounting professionalization processes in the world, this chapter reviewed the literature. Based on this comprehensive literature review, the study identifies a suitable theory as 'Class Based Social Closure' for this study, which has been generated under 'Grand Theory of Sociology of Professions'. Thus, this study investigates the emergence, development, conflicts and impediments to the development of the accounting profession in Sri Lanka as a developing country. The chapter 3 attempts to identify the most suitable theory to use in this study.



## **Chapter 3: Theoretical Framework**

### **3.1 Introduction**

Based on the above in-depth literature review on the professionalization process both in developed and developing countries, the researcher is of the opinion that the sociology of professions would be able to provide theoretical underpinning for this study. Therefore, this chapter provides a comprehensive explanation of the sociology of professions as a grand theory and its framework, including sub-divisions to help understand the applicability of it to this research.

The chapter is devoted to identifying a suitable theory for this study. Thus, it identifies the theoretical framework for the study and draws on the sociology of professions which focuses on how professionalism can be defined (as a social structure) or how occupations professionalize. The chapter is organized as follows Section 3.2 provides valuable insights into the social class creation with the Sri Lankan society. Section 3.3 discusses the government's endorsing power of the profession, the legal monopoly of accounting practices and the consequences of these. Section 3.4 discusses social closure as a strong theoretical perspective under the Grand Theory of Sociology of Profession. Finally, Section 3.5 provides a summary of the chapter.

#### **3.1.1 Origin of professions**

The literature review provided in the first part of this chapter provides detailed discussions on empirical works which have been done in previous studies on the professionalization of accounting. As indicated above, the study uses the sociology of professions as a main theoretical framework. These are described and discussed below.

Sociologists and historians of professions have explored history in reverse chronological order, to identify connections between professionalization processes from the present to their origins. These researchers look at the current state, based on traits such as theoretical knowledge, ethical codes and institutional monopolies of a service, back to the primitive origins where the foundation for present-day professions were laid.

O'Day (2000) relates that the term, "profession" had a religious source, depicting "a calling or vocation to serve God and [one's] fellows". "Professionals" differed from other Christians only in providing a service that required literate education and training.

Identified as the clergy, lawyers and medical men, they reflected the prestige occupations in British society. Perkin (2011) gives further insight into the origin of professions:

Three occupations shared a common background in the reformed Christianity and social humanism of the Reformation and the Renaissance which they learned in the grammar school and, for the highest ranks, at the universities, and took their places in the hierarchical society according to their family connections, access to patronage, education and innate ability, as individuals rather than members of a unified occupational elite (Perkin, 2011:1).

Perkin's comments are vital to understanding the social and educational implications of professions, which have created social stratification. The social utility of the professions and their resilience in the face of threats from industrial and governmental bureaucracies have been highlighted by sociologists such as Carr-Saunders and Wilson (1933):

Inherit, preserve and pass on a tradition ...they engender modes of life, habits of thought and standards of judgement which render them centres of resistance to crude forces which threaten steady and peaceful evolution ...The family, the church and the universities, certain associations of intellectuals, and above all the great professions, stand like rocks against which the waves raised by these forces beat in vain (Carr-Saunders and Wilson, 1933: 497):

Carr-Saunders (1966) attempted to define profession:

The acquisition of special skill and training among members of an occupation, the establishment of minimum fees or salaries, the formation of professional associations, the formulation of professional codes of ethics, and the establishment and enforcement of minimum qualifications for entrance into professional practice (Carr-Saunders, 1966: 43)

Johnson (1972) presented characteristics of profession "by dividing the existing approaches into two broad categories; 'namely 'trait' and 'functionalist' models of the professions" (Johnson, 1972: 23). Johnson further argues that, 'traits are less abstract' and 'attributes' are 'common core of professional occupations' (Johnson, 1972: 23).

Leung *et al.*, (2004) stated that a profession should display the following attributes:

1. A systematic body of theory and knowledge;
2. An extensive education process for its members;
3. An ideal of service to the community;
4. A high degree of autonomy and independence;
5. A code of ethics for its members;
6. A distinctive ethos of culture;
7. The application of professional judgement; and
8. The existence of a governing body.

(Leung *et al.*, 2004:14)

The need for organised professional groups flows from the necessity to both establish and maintain professional standards, according to Elliott (1972):

The professional group controls a body of expert knowledge which is applied to specialised tasks. This poses special problems of social control. Such problems can be seen in the relationship between the unskilled clients or, more generally, in the tension between values developed within the profession and the values of the wider society. Social control in the professional group takes two forms. The professional institutions oversee all the functions of the profession. They lay down standards controlling entry to the group. Through the training necessary to achieve these qualifications, and through associations with professional peers, the individual acquires the norms and values of the group. Through these, mechanisms of social control become internalised. Such internalization is peculiarly necessary because of the opportunities which exist for exploitation in professional practice and because of the loose control which can be exercised by institutions, especially in individual practice situations (Elliott, 1972:11).

As one might expect in the early stages of any evolving occupation, there would be a great deal of fluidity and trial and error before systems and routines were adopted. The 18<sup>th</sup> century was characterized by exclusive clubs and societies, but they were rather repetitive in terms of their rules and regulations which led from failure to enforced monopoly. It was in the 19<sup>th</sup> century that professionalization emerged as an institutional process coupled with the formation of privileged associations and legal backing in many parts of the world (Perkin, 1989). The number of professionals increased significantly, leading in turn to more formal professionalism in industrial societies.

Professionals have thus contributed much to industrialization, particularly in relation to maintaining the standards necessary for the proper functioning of an industrial society. Moreover, Perkin (1989) observes the following concerning social stratification:

Professional class produced most of the social thinkers who supplied the concepts and terminology in which the three major classes, the landed aristocracy, the capitalist entrepreneurs and the manual workers, thought about themselves and achieved class consciousness (Perkin, 1989: 7).

Professions were born and grew in industrial societies and began to spread to the rest of the world in parallel with the process of colonization. The next section provides a definition for the professionalization process of accounting, which is the main focus of this study.

### **3.1.2 Definition of the accounting professionalization process:**

The literature on the sociology of professions focused on how professionalisation can be defined “as a social structure” (see Vollmer & Mills, 1996; Freidson, 1970, 1988; Turner and Hodge, 1970) and how occupations professionalize “through what process” (see Johnson, 1972; Freedman, 1976; Larson, 1977; Collins, 1979; Parkin, 1979; Abbott, 1988; Macdonald, 1995).

Many studies have been conducted on the professionalization of accounting, with researchers using varying definitions of the term ‘professionalization processes’. In this study, ‘the professionalization process’ refers to a series of interactions between occupational associations and other social institutions, in relation to a particular set of conditions. The interactions include but are not limited to negotiation, posturing, confrontation, conflict and conciliation. The term ‘professionalization’ has been given to the outcomes of the process of professionalization (see Johnson, 1972; Larson, 1977; Abbott, 1988; Freidson, 1994; Macdonald, 1995). ‘Professionalization’ means the establishment and maintenance of conditions which give rise to the exercise of control by an occupational association so that it can move towards the end state of professionalization (Johnson, 1972; Larson, 1977; Abbott, 1988; Freidson, 1994; Macdonald, 1995). Willmott characterised a profession as “an interest group that strives to convince others of the legitimacy of their claim to professional recognition” (Willmott, 1986).

It is argued by scholars that the concept of professionalization can be used to explain how occupational associations of accountants push their claims to be recognized as a profession. The main characteristic of professionalization has been identified by many researchers as power that is used by an occupational group in order to control their work and dominate the market for services (Johnson, 1972; Abbott, 1988; Freidson, 1994). This is significant for any analysis of how an occupational association achieves professional status, as is an ideological framework that rationalises, justifies and legitimises the use of such control and power.

Freidson (1994:174) argues that if an occupational association is to be able to gain independence from governmental control in the exercise of its authority in producer

(labour) and consumer (service) markets, then it needs to be able to persuade governments that:

1. the occupation's knowledge and skills are worthy of special protection;
2. the occupational association is organised in such a way that it is able to control the monopoly, and its members have to do it without abusing the privilege;
3. recruitment, training and evaluation of new members ensure competence and trustworthiness; and
4. Peer review is used to ensure quality of service.

As argued by Freidson (1994), professionalization serves to highlight the important link between professional status, the power of the state and public or social acceptance.

Preston *et al.* (1995) have made similar points in their study of the formation of the accounting profession in the United States. They argue that by subscribing to political and moral ideals of the day, the accounting profession has sought to legitimize its activities and has acquired the status and privilege of a profession. In a similar vein, both O'Leary and Boland (1987) and Ramirez (2001) highlight the importance of the social standing and social perception of accountants in acquiring professional status.

Based on the above definition of the professionalization process, the researcher has reviewed the existing literature (in the first part of this chapter) to find gaps and to find the relevant theoretical underpinning for the proposed study. Theories or conceptual frameworks identified as key in previous studies include: a globalization perspective; the neo-Weberian notion of social closure (Weber, 1968; Parkin, 1978; Macdonald, 1985; Murphy, 1988; Arnold and Sikka, 2001); state, market and client's perspective (Puxty *et al.*, 1987); institutional theory (DiMaggio and Powell, 1983; Carruthers, 1995; Rodrigues and Craig, 2007); state and profession relationships (Ballas, 1998; Caramanis, 2002; De Beelde, 2002; Caramanis & Dedoulis, 2007; Xu and Xu, 2003; Walker and Shackleton, 1995; Walker and Shackleton, 1997); historical case studies (Wijewardena and Yapa, 1998; Perera, 1975; Yapa, 1999; 2006, Chua and Poullaos; 1998); Imperialism and neo-colonialism (Annisette, 2000; Bakre, 2005, 2006; Sian, 2006; Davie, 2000); the dynamic

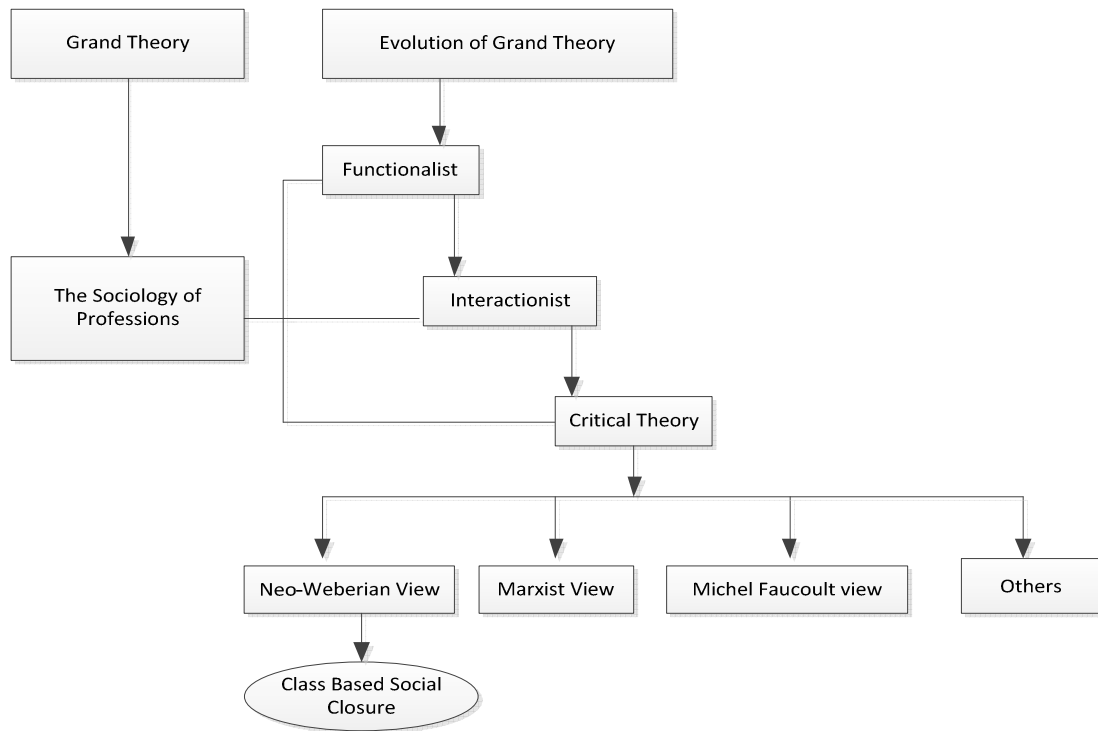
process (Collins,1990); exclusion, segmentation and merger (Willmott,1986); professionalism and the refinement of the closure theory (Collins, 1990b; Macdonald, 1995; Murphy, 1984, 1988; Witz, 1992); functionalist and interactionist perspectives and the critical approach (Willmott, 1986); and organising principles of market, state and community (Puxty *et al.*, 1987 : 275; Seal *et al.*, 1996). The following section discusses the sociology of professions in details.

### **3.1.3 Sociology of professions**

#### ***Functionalist, interactionist and critical perspectives***

As shown in Figure 2.1, until the early 1970s, the sociology of professions focused mainly on the functionalist and interactionist perspectives (Willmott, 1986; Richardson, 1987; Macdonald, 1995). Functionalism, introduced by Durkheim in 1957, was the dominant theory until the late sixties. Durkheim wrote on the ‘power’ approach to the sociology of professions, which was apparently in vogue at the time (Macdonald, 1995). Willmott explained functionalism, as “integrated communities whose members undertake highly skilled tasks”, and attempted to describe special characteristics by drawing on the work of Carr-Saunders and Wilson and Greenwood, such as esoteric knowledge, independence, altruism and self-discipline. Those characteristics had been used to protect the profession from competition, and enable it to “enjoyment of high level of prestige and reward” (Willmott, 1986: 557). However, because of the belief that professional status can be achieved only by experience, the functionalist perspective was heavily criticised and rejected by sociologists in the early seventies (Macdonald, 1995). At the same time, the interactionist perspective was developed in the context of the sociology of professions by Freidson (1970a). Adopting the interactionist perspective of Haug and Sussan (1963) and Roth (1974), in his work Willmott (1986) characterised a profession as “an interest group that strives to convince others of the legitimacy of their claim to professional recognition”. A book by Larson (1977), titled “The Rise of Professionalism: A Sociological Analysis”, was a major contribution to the literature; the author’s interactionist viewpoints informing the development of professional associations.

**Figure 3.1- Evolution of the sociology of professions**



Source: Author developed for the study.

Sociological theory is developed at multiple levels, ranging from *grand theory* to highly contextualized and specific *micro-range theories*. There are many *middle-range* and *micro-range* theories in sociology because such theories are dependent on context and specific to certain situations (Putman, 2001).

Grand Theory is a term invented by the American sociologist C. Wright Mills in *The Sociological Imagination* to refer to the form of highly abstract theorizing in which the formal organization and arrangement of concepts takes priority over understanding the social world. In his view, Grand Theory was more or less separated from the concrete concerns of everyday life and its variety in time and space (Gregory *et al.*, 2009, Mills, 1959). In Parson's view "grand theory" integrated not only sociological concepts, but also psychological, economic, political, and religious or philosophical components. He tried to integrate all the social sciences within an overarching theoretical framework (Parson, 1975).

Moreover, 1980s the grand theory was reformulated and included theories such as; critical theory, structuralism, structural Marxism, and Structuration Theory, all influenced human geography. Barnes and Gregory confirmed this and stated that no matter the phenomenon investigated, it could always be slotted into a wider theoretical scheme. Which means nothing would be left out and everything would be explained. Gregory *et al.*, (2009) further insisted that there are two critical responses to this (reformulated) Grand Theory. First there has been a continuing debate about the scope of theory in human geography, with the focus on the relation between theory and empiricism. Secondly, that no single theoretical system can possibly ask all the interesting questions or provides all the satisfying answers (Gregory *et al.*, 2009). Therefore, social closure is one of the elements of critical perspective and a critical perspective is a subsection of ‘sociology of professions’ which is called grand theory and this has been accepted as a legitimate macro perspective in the empirical studies in accounting (example Chua and Poullaos, 1993; Sikka and Willmott, 1995; Carnegie and Edward, 2001; Walker, 2004; Annisette and Kirkham, 2007; Hammond, *et al.*, 2009).

The studies cited in the previous paragraph have provided evidence that a hidden competitiveness was created within the profession by members of the professional accounting bodies, especially at senior levels. This deliberate competitiveness appears to have benefited the dominant professional bodies, affording them to protect against entrance into the profession of potential rival bodies.

This so-called “competition of professional competence” has created different status levels among the professional accounting bodies based upon academic qualifications, training and other membership entry criteria (Willmott, 1986; Chua and Poullaos, 2002; Walker, 2004; Sian, 2007, 2011). Under the concept of “survival of the fittest”, professional bodies with political clout have achieved the status they have sought, while the remainder could be said to occupy a second tier. Second tier status may mean that although they are professional associations their members do not have the authority to practice as public accountants (Walker and Shackleton, 1995; Walker, 2004; Yapa, 2010; Sian, 2011).

The critical perspective insists on the importance of structural factors, such as occupations or the markets services for accounting labour or it is for the society more



broadly. Professional bodies are seen as a means of achieving collective social mobility by securing control over a niche within the market for skilled labour (Larson, 1977; Klegon, 1978; Parkin, 1979). Studies on accounting professionalization have taken a critical perspective approach, examining professionalization processes within the wider context of power relations, employing Max Weber's concept of closure. Proponents of this perspective maintain that accounting occupational groups attempt to realize closure by obtaining legislation that grants exclusive jurisdiction for the supply of professional accountancy services to niche markets (Abbott, 1988; Sian, 2006; Uche, 2002; Walker, 2004; Willmott, 1986; Yapa, 1999).

The closure strategy (as shown in Figure 2.1) is operationalized by setting criteria for professional association membership, including education and certification (Chua and Poullaos, 1998; Sian, 2007; Walker and Shackleton, 1996). Thus, the formation of a professional association is an important event in the professionalization process. 'Signals of movement' (i.e. steps taken by occupational groups) in the pre-formation of an association, determine a profession's ability to establish closure, and such moves after association formation enable maintaining closure (Carnegie and Edwards, 2001).

The filtering process of professional bodies, described above, has a number of implications and associated problems. In particular, it has led to the creation of an elite<sup>11</sup> group of accountants. As Willmott (1986:558) notes, this "materially and symbolically privileged position of professional workers is understood to be achieved by virtue of the protection of some elite segment of society", and also different societal levels based on their professional member body. According to Willmott's 1986 study "professional associations as political bodies developed to defend the interest and preserve the scarcity of the members' labour" (Willmott, 1986:555). Thus exclusionary tools have been adopted to create a monopoly with a franchise granted to a select group of people in society to provide accounting and related services.

In this light professionalism is not regarded as a reflection of the distinctive technical and social functions performed by the workers. Instead, it is understood as a strategy for controlling an occupation, involving solidarity and closure, which

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<sup>11</sup> A group or class of people who enjoy the benefit of the intellectual speciality while holding the highest social status in the society (Said,1993: 237)

regulate the supply of professional workers to the market and also provides basis for the domination of institutions associated with it (Willmott, 1986:557).

The next section discusses the profession as a perspective of the sociology of professions. In this discussion the main themes of the sociology of professions are explained separately with relevant literature.

#### **3.1.4 Accounting profession from the perspective of the sociology of professions**

Drawing on literature from the sociology of the professions, this study describes sociological perspectives on the development of the accounting profession. The main perspectives included in this section are: social class, legal monopoly of accounting practices and social closure. Willmott has written on the removal of institutional politics from the professionalization process, drawing on the views of Marx and Weber on the development of professional associations in the context of a bureau-capitalist society (Willmott, 1986). This has been viewed as the critical perspective on the development of a profession, with Larson (1977), Parry and Parry (1976), Freidson (1970, 1983) and Johnson (1972, 1977, and 1980) providing valuable insights, as we shall see (Chua and Poullaos, 1998, 2002; Sikka and Willmott, 1995; Annisette and Kirkham, 2007).

Thus the functionalist, interactionist and critical approaches have provided a constructive underpinning to explain the accounting professionalization process. The critical approach was based on the viewpoints of Weber and Marx about the formation and development of professional associations in the context of a bureau-capitalist society. Elliott (1972) attempted to define professionalism as “occupations seeking to establish themselves as professions commonly claim the service they provide is important, if not vital, to the society” (Elliott, 1972: 112). According to Willmott (1986) “emergence of professional bodies is seen as a means of achieving collective social mobility by securing control over a niche within the market for skilled labour” (Willmott, 1986:558). Viewed in this light, “professionalism is not regarded as a reflection of the distinctive technical and social functions performed by professional workers” (Willmott, 1986:558). Rather, it is regarded as a *controlling mechanism* of professional occupations. He further argue that professional recognition can be achieved based on the role the profession play in the capitalist society but not by trait of professionalism:

The ability to gain recognition for “professional” claims is seen to be conditioned less by the traits of professionalism and more by developments

within the capitalist totality in which the professions themselves play a significant part (Willmott, 1986:558).

Applying this notion to developed countries, we have seen that in many cases the privileged class has represented the profession and used strategies to protect their territories, acting as gatekeepers (Puxty *et al.*, 1987; Walker, 1991, 2004; Walker and Shackleton, 1995; Richardson, 2010). They have used their “knowledge speciality” or their “professional skills” as tools to dominate and distinguish from the less privileged social class. As Parry and Parry (1977) comment:

Professionalism is understood as a strategy for controlling occupation, involving solidarity and closure, which regulates the supply of professional workers to the market and also provides a basis for the domination of institutions and other occupations associated with it (Parry and Parry, 1977:118).

Professions have been introduced into colonies when colonisers have begun to establish their business activities there. Thus, those professionals have acted in the same way as they acted in their own societies, protecting their territories from rivals (see Annisette, 1999; Dave, 2000; Sian, 2006, 2007). According to Johnson (1973), that is one reason why the localisation of the accounting profession has not been a smooth process in many colonies.

As Abbott explains, although professions are of ancient origin, there was a dearth of literature on professions until the mid-19<sup>th</sup> century. This dearth has since been addressed by social scientists through their studies on ‘professions’ which became literature on the sociology of the professions. Legal and medical professions were the pioneering skilled occupations investigated by scholars at an early stage of professionalization studies (Larkin, 1983; Parry and Parry, 1976; Corrigan and Sayer, 1985; Macdonald, 1984, 1985, 1995). According to Abbott, professionals have conquered their expected positions in society, being members in their respective professional associations. Moreover, “[t]he professions dominate our world. They heal our bodies, measure our profits, save our souls, yet we are deeply ambivalent about them” (Abbott, 1988:1).

Some studies have explored the misconceptions about actions and reactions of the professionals and their associations due to their behavioural ambiguities (Walker, 1991; Annisette, 2006; Johnson, 1972). Historical evidence from many parts of the world on

organising occupational groups as professionals (see Walker and Shackleton, 1998; Willmott, 1986), suggests that professionals have used their skills as tools to protect their territories through power bases. The general public might retain an ambivalent attitude towards the professions. Drawing on the views of Pasteur *et al.*, (2003), Abbott explains how different professions act and react based on their professional skills and experiences. General perceptions of professions have been expressed as collective social mobility, which signifies common phenomena such as legal monopoly, malfeasance and power bases (Abbott, 1988).

Early theorists theorised professions without paying attention to professionals' exclusive qualities, even their power bases. According to Ben-David (1963) and Bledstein (1968), power is an aim of professionalism, but they argue that power is not generated at the expense of others. However, studies have shown (Willmott, 1986; Annisette, 1999) that wealth and power are interconnected and these two concepts have shown a strong positive relationship towards authority; by the same token, individual professionals' wealth and power have been improved due to their professional prestige. Thus later theorists have identified power within the professions which is in-excludable from professionals (Freidson, 1973; Johnson, 1982; Abbott, 1988; Larson, 1990; Macdonald, 1995). What is more surprising is that this theory became applied to nearly all post-functionalistic writings, which led some later writers, such as Abbott (1988) and of course Hall (1983), to regard Berlant (1975) and Larson (1977) as cast in the same mould. Even neo-Weberian model users are paying more attention to power relations:

From the point of view to be developed in the present work and in the eyes of others (such as Witz, 1992), Berlant, Larson, Parry and Parry (1976) (*et cetera*) were developing a neo-Weberian line of analysis, which certainly concerned itself with power, but chiefly in so far as power cannot be separated from the conflicts that constitute the main focus of such studies, in the sense that the outcome of conflict will often result in one of the protagonists achieving a superior and therefore more powerful position (Macdonald, 1995:26).

Professional power is generated within the community among professionals as a result of market interactions and state intervention. To this end many studies have used Streeck and Schmitter's (1985) four principles of social order (community, market, state and associations) with "community as spontaneous solidarity, market as dispersed competition and State as hierarchical control" (Puxty, *et al.*, 1987: 276), with a view to

identifying the relationship of the process of accounting professionalization within societies (Streeck and Schmitter, 1985; Puxty, *et al.*, 1987; Seal, 1986; Hoa, 1999).

### **3.2 Creation of social class**

The term “social class” was used widely in the early 19<sup>th</sup> century, following the industrial and political revolutions of the late 18<sup>th</sup> century. The most influential early theory of class was that of Karl Marx (1818-1883), who saw one class as controlling and directing the process of production, while the other classes were the direct producers and provided services to the dominant class. Weber (1968) classifies classes by considering Karl Marx’s unfinished ‘*Capital*’, “deal with the issue of class unity in the face of skill differential” (Weber, 1968:305). Weber has further developed the concept of classes and presented it in three major categories – Property class, Commercial class and Social class – based on the economic order of society.

In his essay *on Economy and Society*, Weber (1968) emphasized the importance of political power and social status or prestige in maintaining class distinctions. However, both of the class concepts were criticized by the neo-Weberian and neo-Marxist analysis of class. In a similar vein, Macdonald (1984) contended that professions are based on three basic variables: wealth, status, and power. Thus, occupational groups strategically achieve their privileges by maintaining higher portions of these three areas.

Neo-Weberian theory was developed by Frank Parkin, a major theorist of the British sociological dialogues of the era (Alexander, 2005). He derived this theory from the Weber discourses of social closure, in particular those in the famous essay on *Class, Status and Party* (Weber, 1946). In the process of formulating the neo-Weberian theory, Parkin managed to absorb the central concept of social closure and develop the principle beyond Weberian boundaries, as well as excluding Weber’s notion of power which he considered irrelevant to his rationalization. According to Parkin (1979), social closure is defined as:

[t]he process by which social collectives seek to maximize rewards by restricting access to resources and opportunities to a limited circle of eligible (Parkin, 1979: 44).

Parkin terms this process “exclusionary social closure” and suggests that it is a universal tendency that results in system stratification. The system of aristocracy is the most

obvious one based on exclusionary social closure. In an aristocratic society the status group controls political power and also institutionalizes its right to pass on that power and privilege directly to its offspring (Parkin, 1979; 2002).

A class system emerged together with rapidly advancing industrialization in the UK. With this development, the contemporary sociological model of class became more popular among scholars (Macdonald, 1984).

A class-based study was conducted in Australia in 1988 by Chua and Poullaos who applied Weber's model in their 1998 historical analysis of an Australian accounting association between 1886 and 1903. The study revealed that the exclusion of competitors was hardly meaningful or achievable during most of the period under review. In the early days, the inclusion of indigenous professionals was encouraged – monopolistic closure did not exist (Chua and Poullaos, 1998). Thus, Weber's class status-party model was not relevant. However, in South Africa, white professional accountants applied closure to non-white Africans, mainly implemented based on race and class (Hammond, *et al.*, 2009).

In modern capitalist societies, privileged elites agree with stratified social class systems even though there are some controversies about it, which create exploiting, perhaps conflicting environments in the modern world. However, Weber's power-centred class is rejected by scholars due to it being too narrow in scope. Sri Lanka provides a suitable local context to examine these issues of British influence on the accounting profession. Based on the literature presented above, this research follows the seminal work done by Willmott (1986), Abbott, (1988) and Macdonald (1985, 1995) in order to add new knowledge from Sri Lanka to the existing literature based on the sociology of professions.

Class systems emerged together with rapidly advancing industrialization in Britain and other developed nations. With this development, contemporary sociological models of class became more popular among scholars (Macdonald, 1984). Neale (1972) sketched the contemporary British class structure which contains five classes. This model had been used by Macdonald to explain class-based Scottish accountants in 1984.

The five-class model is made up as follows:

- (1) Upper class: aristocrats, landholders, authoritarians, exclusive membership.
- (2) Middle class: industrial and commercial property-owners, senior military and professional men, aspiring for acceptance from the upper class.
- (3) Middling class: petit bourgeois, aspiring professional men, other literates and artisans, individuated or privatized like the middle class but collectively less deferential.
- (4) Working class A: industrial proletariat in factory areas, workers in domestic industries, collectivist and non-deferential.
- (5) Working class B: agricultural labourers, other low-paid non-factory urban labourers, domestic servants, urban poor deferential and dependent.

Out of the five classes of Neale's model, the middle class signifies the formation of gentry from the upward middling and downwardly mobile people from the established middle class as well as the offspring of the middling class. Professional men are represented in the middle class, who always look towards the upper-class. Thus, there is a connection with Marxian and Weberian theories of social class division of 'established and propertied' and 'aspiring and property-less'. The aspiring and property-less category has been identified as the most radical; if these people were in the accountancy profession, they may definitely attempting to collective social mobility (Macdonald, 1984:179).

Caramanis (2005) described the class conflict in the Greek accounting and auditing profession; he argued that the latter have been controlled by international accounting and auditing firms together with liberalization measures introduced by the Greek government in 1992. A recent study by Caramanis examines a failed attempt by a group of local auditors in Greece to reinstate the professional monopoly they enjoyed prior to liberalization. Caramanis comments that:

[i]n actuality, the pre-liberalization audit set-up—despite any merits it may have had—was arguably something of an anomaly within the global audit regime, which is dominated by the 'Big Four' (Caramanis, 2005:216).

Extraprofessional conflict between the local accounting body and international (Big 4) firms represented a struggle of the material and ideal interests of social stratification (Caramanis, 2005).

In general, scholars have defined the process of the professionalization of occupations as a series of interactions between occupational associations and other social institutions in relation to a particular set of conditions. Evidence in the literature reveals a relationship between the class system and the accounting profession. Jacob (2003) explains this relationship, drawing on the views of Brown (1995), who stresses the importance of professional occupations to the middle class, suggesting that the latter has become increasingly dependent upon access to professional occupations as a means of both reproducing social status and perpetuating privileged lifestyles. “This relationship is not immediately clear”; Jacob also observes that “professions such as accounting, law and medicine offer socially and economically advantaged positions in society and it is likely that these positions, particularly control over entry, would be a highly valuable asset in the hands of the elite” (Jacobs, 2003: 571). But emerging scholars have seen this class concept as irrelevant, out-dated or even, in a postmodern milieu, as not really existing (Jacobs, 2003). However, class system is important to this study, since it had an impact at the early stages of the accounting professionalization process in Sri Lanka.

In modern capitalist societies, privileged elites agree with stratified social class systems even though there are some controversies towards it, which create exploiting and perhaps conflicting environments in the modern world. However, Weber’s power-centred class is rejected by scholars due to it being too narrow in scope (Larson, 1977; Parry and Parry 1977; Macdonald, 1984).

### **3.3 Legal monopoly of accounting practice**

In relation to occupational groupings, the term “legal monopoly” and how it was created have been explained in the following way:

State approval of the occupational body is obtained and the right for members to use a particular title. Many bodies have then attempted to attain the top of the scale by securing the passing of an Act which registers the membership and specifies that the occupation’s services may only be provided to the public by persons on the register in short, a legal Monopoly (Macdonald, 1985: 543).

The following definition also assists our understanding of the concept of “legal monopoly”:



A government–granted monopoly (also called “de jure monopoly”) is a form of coercive monopoly by which a government grants exclusive privilege to a private individual or firm to be the sole provider of a good or service: potential competitors are excluded from the market by law, regulation or other mechanisms or government enforcement (en.wikipedia.org/wiki/Government-granted\_monopoly –accessed 16/04/2009).

Sociologists have commented that a monopoly of function, a service ideal, autonomy of an organization and a body of abstruse knowledge characterise all professions (Wilensky, 1964; Freidson, 1970; Robson, *et al.*, 1994). Moreover, professional elites use these attributes to their benefit, thus creating a distinctive social status. It is said that to constitute a profession there should be considerable interest among the occupation concerned, with the expectation of professional status. The existence of professional status creates a social contrast between an occupational group and the general public (Worsley, 1985). When occupational groups are serving the public interest, that environment creates an opportunity to gain an advantage, maintaining the monopoly to provide their skilled services to the society (Robson, *et al.*, 1994).

Larson outlines the idea of occupational monopoly in her theoretical and empirical contributions to the study of professionalization processes, explaining that the organization of an occupation is needed so as to secure and maintain the monopoly of expert knowledge (Larson, 1977):

Professionalism is thus an attempt to translate one order of scarce resources – specialist knowledge and skills – into another – social and economic rewards. To maintain scarcity implies a tendency to monopoly: monopoly of expertise in the market, monopoly of status in a system of stratification.

Professionalization (is) the process by which producers of special services (seek) to constitute and control a market for their expertise. Because marketable expertise is a crucial element in the structure of modern inequality, professionalization appears also as a collective assertion of special social status and as a process of collective upward social mobility (Larson, 1977: 17).

As indicated earlier, Macdonald (1985) describes a situation of legal monopoly in his study of “Social Closure and Occupational Registration”, by examining the accounting profession and its protracted registration attempt in the UK. Macdonald’s investigation is also on collective social mobility, described as the stratification of society into several classes. The essence of social closure is the definition of “membership” at a particular point in time, and the setting of entry criteria for those who wish to join subsequently.

According to Macdonald, an occupational monopoly and closure have an in-excludable relationship (Macdonald, 1985: 542).

Berlant's (1975) views are also pertinent to an understanding of legal monopoly:

A legal monopoly is something antithetical to the ideology of liberalism that was current during the period in which most professions came to prominence, something previously associated with mercantilism (Berlant, 1975: 145).

As Berlant argues, occupational groups do not start out with the expectation or intention of exploiting the freedom of liberalization, but if they are deliberately vigilant about their benefits, they begin to act as special groups to protect their territory from potential rivals. Because of this phenomenon, it has been argued that monopoly should not be granted to professions if efficiency and transparency are to be maintained. As MacDonald observes, legal monopoly has only been conferred in Britain in special circumstances:

In Britain, a legal monopoly has therefore only been granted under special circumstances, and stands at the upper end of a range of exclusionary devices. At the lower end, an occupation may form a professional body and register it under the Companies Act. At the middle level is a body established by a Royal Charter obtained by petitioning the Privy Council. A Royal Charter (or, prior to about a century ago, a special act of Parliament) carries considerable prestige (Macdonald, 1985: 543).

Taking the views of Macdonald (1995) and Richardson (1987), Walker describes that legal monopoly of a profession is secured by state registration of an occupation; he further elaborates his view on the legal monopoly. The monopolistic status enjoyed by chartered accountants as collective entrenchment and status maintenance, preservation of an almost complete monopoly in the provision of accountancy services established on the basis of continuous and exclusive usage of the designation "chartered accountant" (Walker, 1991: 257).

West (1996) commented that cultivation of strategic relations with existing powerful institutions has created platforms for power-centred monopoly:

Success in the pursuit of professional status is likely to be significantly dependent on the state on account of its power to grant status enhancing appurtenances (such as Royal charters) and legislatively imposed privileges (such as monopoly) (West, 1996: 89).

The development and preservation of the professional monopoly of practice has been identified as a common factor in the process of professionalization. Primary evidence has been explored by sociologists in the developed world, especially Britain. As

discussed in this section, Berlant (1975), Larson (1977), Macdonald (1985), Richardson (1987), Walker (1991) and West, (1996) are the main contributors to research in this area. However Chua and Poullaos (1998) criticize the Neo-Weberian closure due to its too broadness and they commented on monopoly by following Murphy and Richardson. In their argument:

Monopoly in an absolute sense is never achieved (Murphy, 1988; Richardson, 1992) and our earlier historical research demonstrated that there are degrees of market control. Consequently, there is a need to ask how much control, control over what (for example, work practices, examination syllabi, entry requirements), where (urban, rural or cross borders') and whom (Chua and Poullaos, 1998: 157).

However, in countries like Sri Lanka there is evidence on closure based on rural, because Sinhalese living in rural regions did have access to English education, thus those who studied only in Sinhala language were not able to enter into chartered accountancy education because ICASL examinations were only in English at the early stage of profession in Sri Lanka (Yapa, 2006).

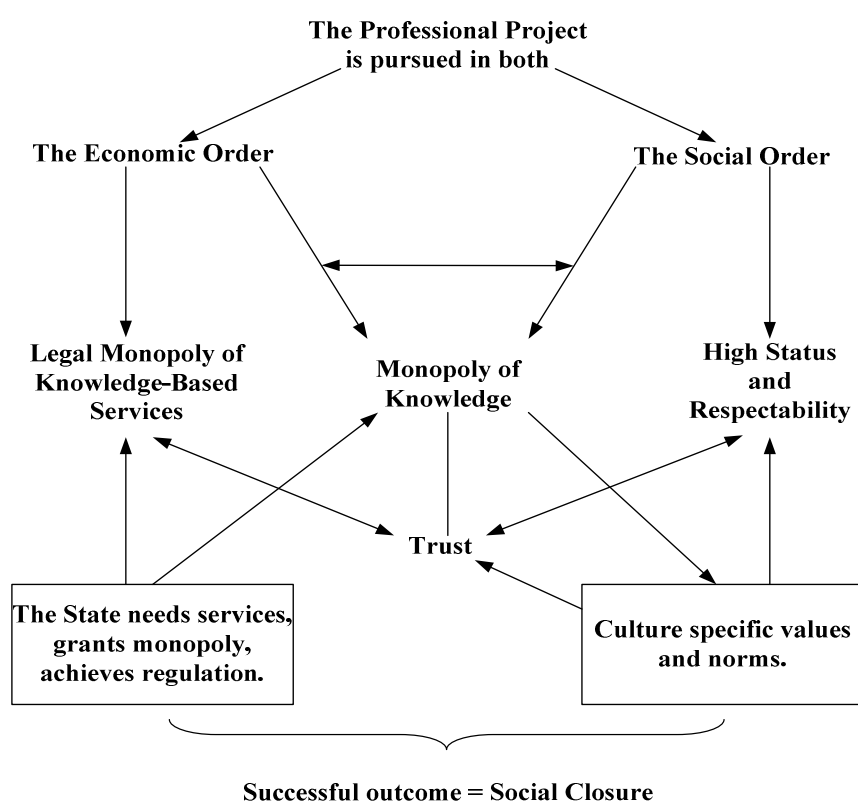
### **3.4 Social closure**

It was Max Weber (1968: 342) who originally outlined the concept of social closure, (Macdonald, 1985). Social closure is a concept widely chosen by researchers to explain social stratification and its impact on societies across the globe (Larson, 1977; Larkin, 1983). Social closure has been used by Max Weber as part of an explanation of how members of a social stratum establish and maintain their status, and how collective mobility is achieved (Macdonald, 1985). Weber pays particular attention to professional occupations and their registration under statute as an important part of the process of closure. This concept was fine-tuned by sociologists in the latter part of the 20th century under neo-Weberian perspectives. Neo-Weberian theory – introduced in the 1970s by a group of British sociologists at a time when Marxist and Foucauldian theories were dominant – provides the framework for exclusionary social closure.

According to Macdonald's (1995) depiction, the professionalization processes can be looked at from two different perspectives namely 'Economic Order' and 'Social Order'. These concepts have been critically analysed by scholars (Weber, 1978; Abbott, 1988; Macdonald, 1984, 1995; Witz, 1992) over the past four decades. In order to identify the

exact root causes of the concept of closure, as shown in Figure 3.2, social closure could be seen in any trajectory of professions. Thus, the ‘Economic Order’ is emerging from Webers perspective of legal closure and monopolization of market and the occupation. Therefore, the economic order is used as a powerful means of acquisition of the knowledge and education which would undoubtedly create a prestigious profession emerging from highly regarded institutions. In his discussion, Macdonald has fully rejected Larson’s work due to its unsuitability for his trajectory of social class-based closure (Macdonald, 1995:17).

**Figure 3.2 - Conceptual outline of the theory of profession and closure**



Adopted from Macdonald 1995

On the other hand ‘Social Order’ has also been identified as another strong directive element for monopoly-based closure, which dress up professions and occupational associations with high statuses. Elitism-based political power, birth and education or expertise is the input for social prestige which could provide a ladder for domination of a professional occupation (Macdonald, 1995).

Neo-Weberian theory was developed by Frank Parkin, a major theorist of the British sociological dialogues of the era (Alexander, 2005). He derived this theory from the Weber discourses of social closure, in particular those in the famous essay, *Class, Status and Party* (Weber, 1946). In the process of formulating the neo-Weberian theory, Parkin managed to absorb the central concept of social closure and develop the principle beyond Weberian boundaries, as well as excluding Weber's notion of power which he considered irrelevant to his rationalization. According to Ramirez, the idea of a profession is not an object to be taken for granted but rather a socio-historical construct that has been developed by the neo-Weberian school (Berlant, 1975; Larson, 1977; Macdonald, 1995) around the concept of social closure (Weber, 1978; Murphy, 1988).

As we saw earlier, Chua and Poullaos (1998) conducted a study on Australian accounting associations, paying particular attention to the Incorporated Institute of Accountants (IIA), Victoria, during the period 1886-1903. The study found that all types of accountants (practising and non-practising) were included in the Victorian Royal charter. Moreover, pressure from third parties (the state, business communities and financial press) presented many more obstacles to the Victorians' aspirations than did their class competitors. 'Accounting, accountants and accounting associations have crossed the border' (Chua and Poullaos, 1998: 183), and the crossing has taken place on many occasions, however, colonial clones do not exist in the colony because of identical consistence or congenial copies. However, there were no exact findings in relation to accountancy registration attempts. Chua and Poullaos argue that monopolistic closure did not significantly influence the professionalization process; however, colonial, imperial association and the autonomous state agencies have exerted considerable influence in the process of the formation of the accounting profession in Australia. Furthermore, the study critically analysed the impact of colonial factors in the early stage and the influence of diverse discourses of British origins in the latter stage (Chua and Poullaos, 1998).

Another study, entitled 'The Construction of the Professional Accountant: the Case of the Incorporated Institute of Accountants, Victoria (1886)', was conducted by Carnegie and Edwards in 2001. It finds that an attempt to accomplish closure naturally exploited the prospects provided by both demand and supply factors. However, evidence shows that there was social exclusion in Australia. In that sense, there was an exclusion of individuals based on wealth, class, race, religion and gender. These criteria have been

identified as common feature elements of the professionalization process (Carnegie and Edwards, 2001; Chua and Clegg, 1990). Accounting bodies have used the professionalization process as a controlling mechanism when formulating their membership admission requirements. Their intentions have been to maintain the profession as an elite group and close off the market for non-elite accounting practitioners (Yapa, 2006, 2010; Chua and Poullaos, 1998). Puxty *et al.*, (1987) argue that certain qualities have been emphasized by the professions in order to attain and legitimise social closure:

To attain and legitimise social closure, emphasis has been placed upon “good breeding”, upon being well connected and upon the “personal” qualities as associated with such characteristics as reliability, trustworthiness and fellowship (Puxty *et al.*, 1987: 278).

In the Canadian context, Richardson (1987) conducted a study entitled ‘Social closure in dynamic markets: the incomplete professional accounting project in accountancy’. Describing the professionalization process as incomplete, Richardson reports that: the Canadian accounting profession has failed to gain statutory recognition of a task domain in which accountants are uniquely qualified to practice; the profession has failed to develop a cognitive base sufficient to standardize the training of practitioners and close the profession, and; the market for public accounting services has shifted away from those core activities that the institutional structure was designed to support and protect (Richardson, 1987). Thus, market closure has failed because the profession has not developed a cognitive base and survived facing market changes based on several factors such as technology, organizational structures (Richardson, 1987).

Sian (2006) has explored the concept of closure within the professionalization process in Kenya and its application to the development of the accounting profession. She has noted that the accounting profession comes under a three tier system: Kenyan Accountants and Secretaries National Examination Board (KASNEB); Registered Accountants Board (RAB); and the Institute of Certified Public Accountants of Kenya (ICPAK). Before Kenyan independence, expatriate accountants dominated the accounting profession. However, political ideals were important in determining inclusion and exclusion. Soon after independence, the Kenyan government took an initiative in line with their declared agenda of the profession being steered by the African Kenyan by suppressing British influenced Kenya. The Kenyan project was not motivated by accountants who wished to

achieve social mobility, but rather by the aspiration of the state to exclude the expatriate monopolistic atmosphere of the profession through local professionals (Sian, 2006).

### **3.5 Summary**

The second part of the chapter explained the origin of accounting professional infrastructure and how it developed over a period, especially during the last five decades. Firstly, the accounting professionalization process was defined by drawing on the views of Johnson (1972), Larson (1977), Abbott (1988), Freidson (1994), Macdonald (1995) and other noteworthy scholars. Secondly, the study described theories relating to the sociology of professions: functionalist, interactionist and critical approaches. Those theories have been used by scholars to explore professionalization processes in many countries.

## **Chapter 4: Development of accounting profession: Methodology and methods**

### **4.1 Introduction**

In the previous chapter, literature on professionalization processes was reviewed in order to understand the evolution of the accounting profession in developed and developing nations. Also, the review of literature on professions managed to enrich the author's understanding of the extant theories and methodologies used in previous studies on accounting professionalization processes. The objectives of this chapter are to explain and justify the methodology and methods applied in this thesis.

According to Silverman, methodologies define how one goes about studying any phenomenon. The methodological standards in the social sciences are the social theories that are covered in the methodology section. Ideas are generated about the social world in such a way that one can progress with these ideas to research various social phenomena. Thus, in simple terms, the methodology is to show the reader how the study is conducted; the "method of inquiry". This means that methodology explains the way that we are going to understand the social phenomenon rather than specific techniques for gathering and examining data.

This chapter is structured in two parts. The first part is on methodology and the second part is on methods. Part one of this chapter compares existing methodological ways of conducting qualitative research in order to select the most appropriate methodology for this study. The writings of Laughlin (1995) and Llewelyn (2003) on methodological choices have been selected for consideration. Part two of this chapter provides appropriate justification for the selected methods to conduct this study.

### **Part 1: Methodology**

#### **4.2 Rational for selecting the qualitative approach**

The methodology is constructed based on the philosophical foundations of this research, for instance Ontology (objective reality), Epistemology (acquiring knowledge based on ontology) and Methodology (the way in which knowledge is gained) (Gaffikin, 2008).



The methodological approach of this thesis draws heavily on modern sociology (Merton, 1968; Burrell and Morgan, 1979; Couch, 1987; Laughlin, 1995; Llewelyn, 2003). The thesis is operationalized through the case study method. However, justification of the selection of this method depends on the nature of the research problem and the researcher's ontology. Therefore, the ontological foundation of the chosen methodology is also discussed in this chapter.

In the early 19<sup>th</sup> century notable philosophers began to reject positivism on social research. At the turn of the 20<sup>th</sup> century, the first wave of German sociologists formally introduced sociological anti-positivism, proposing that research should concentrate on human cultural norms, values symbols and social processes viewed from a resolutely subjective perspective (Chua, 1988). The founding fathers of sociology – Comte and Durkheim – ‘presumed that the discipline would be a social enterprise structured by the objective of formulating principles of social life’ (Couch, 1987:101). Burrell and Morgan described this as an ‘interpretive sociology’ (Burrell and Morgan, 1979). Non-positivistic or the qualitative approach is said to be more profound in the study of accounting professionalization processes in many parts of the world. Under this category sociology of professions has been identified as a prospective theoretical foundation by scholars to discuss the issues emanating from context-specific and context-varied transitional societies (Chua, 1988; Wickramasinghe *et al.*, 2004; Hopper *et al.*, 2009). As explained in Chapter 2, the sociology of professions is capable of discussing a wider range of phenomena in socially constructed professions. Thus the sociology of professions was created to enhance the understanding of sociologists such as Carr-Saunders and Wilson, 1933; Greenwood, 1957; Johnson, 1971, 1972, 1982; Larson, 1977; Macdonald, 1984, 1985; Abbott, 1988, in their critical studies of the professions. In the last two decades the sociology of professions has been heavily utilized in order to examine the accounting professionalization process due to its quality of multidisciplinary descriptivism. Moreover, a multidisciplinary approach to research is needed to understand processes’ phenomena rooted in a much deeper social context (Bhimani, 1999). It is argued that the complex human interactions in accounting professionalization processes can be studied only at a surface level through contingency-based research due to deficiencies found in the survey-based positivistic studies (Hopwood, 1983; Otley *et al.*, 1995). Therefore, rich literature is available on the sociology of professions in the recent debate of the accounting professionalization process (see Willmott, 1986; Ballas, 1998; Walker, 1991;

Walker and Shackleton, 1995, 2004; Chua and Poullaos; 1993, 1998, 2002; De Beelde, 2002; Dezalay, 1995; Preston *et al.*, 1995; Sikka and Willmott, 1995; Richardson, 1997; Simmons and Nue 1997; Mckinstry, 1997; Carnegie and Edwards, 2001; Uche 2002; Xu and Xu, 2003; Larsson, 2005; Yapa, 1999,2006 and 2010; Sian, 2006; Annisette and Kirkham, 2007; Yapa and Hao, 2007; Hammond, *et al.*, 2009).

#### **4.2.1 Selection of case in a qualitative study**

The selection of case is a paramount and integral part of a research methodology. It is said that the best method for selecting a case to be studied depends on the purpose of the study (Sechrest, *et al.*, 1996). Case studies appear to be useful in several ways. On many occasions the theory of the sociology of professions is operationalized through the case study method (see Chua & Clegg, 1990; Chua & Poullaos, 1993; Uche, 2002; Yapa, 2006; Dyball, *et al.*, 2007; Sian, 2007). Thus, this thesis is also operationalized through the case study method. However, justification of the selection of the method depends on the nature of the research problem and the researcher's ontology. Therefore, this chapter explains the ontological foundation of the chosen methodology. This is a qualitative case study, mainly interview based; Eisenhardt and Graebner's (2007) comments provide some useful insight into an interview base study:

Retrospective cases rely on interviews (and archival data) that build up the number and depth of cases efficiently and so enable a research to cover more informants and include more cases. Such interviews are particularly accurate when the focal events are recent. In contrast, real-time cases employ longitudinal data collection of interviews and, often, observations, both of which help to mitigate retrospective sense making and impression management (Eisenhardt and Graebner, 2007: 28).

Thus Eisenhardt and Graebner (2007) suggest that reliable and in-depth interview evidence becomes one of the key success factors of this case study.

At an early stage of the development of professions, theories had been devised and used to investigate various professions other than the accounting profession, such as medicine, engineering, architecture and law (see Macdonald, 1985; Johnson, 1972, 1980; Larson, 1977, 1980; Abbott, 1988). Such literature assists in laying a solid foundation for this study. Thus, next section aims to explain and justify the link between the theories and methodology in the cases study.

#### 4.2.2 The link between theories and methodology in the case study

According to the ancient Vedic philosophy, the production of knowledge is essentially a triadic interaction among three things: the knower, the known and the process of knowing (Gummesson, 2000; Gaffikin, 2008). Conversely, the relationship between the researcher, the phenomenon being studied and the methodology of investigation are critical to the production of knowledge in any field or discipline. The ontology, the ultimate presumptions about the nature of the reality being observed, essentially shapes the epistemology and is the science of obtaining knowledge and the methodology (Ardnor and Bjerke, 1997).

Collis and Hussey (2003) classified four different types of research shown in Table 3.1, corresponding to the study's purpose, as summarized below:

**Table 4.1: Different types of research**

Exploratory research	Exploring a research issue when there are few or no earlier studies to which researchers can refer for information about the issue.
Descriptive research	A description of phenomena as they exist.
Analytical or explanatory research	A continuation of descriptive research where researchers not only describe the characteristics of the pertinent issues but also analyse and explain why or how it is happening.
Predictive research	An expansion of explanatory research with a forecast of the likelihood of a similar situation occurring elsewhere.

Source: Collis and Hussey (2003)

According to Yin, case studies are basically of three types: 'Exploratory', 'Descriptive' and 'Explanatory'. Exploratory is aimed at hypotheses testing, a descriptive case study attempts to provide a complete description about the phenomena within its context, and an explanatory case study presents data pointing towards cause and effect relationships, going on to explain how "events happened" (Yin, 2003: 4, 5). Out of these three case study methods, the explanatory method is supplied by 'explanatory theories' such as the

knowledge-driven, problem-solving and social interaction theories. The social interaction theory “claims that in high-utilization environments, research procedures and users belong to overlapping professional networks with ongoing communications” (Yin, 2003: 21).

According to the provisions of The Institute of Chartered Accountants’ Act No. 23 of 1959, the Sri Lankan accounting professionalization process is mainly under the control of the ICASL. Therefore, this study considers the ICASL as the case and uses an explanatory case study approach to enhance understanding and secure explanations of what occurred. The case study concerned is the accounting profession and its post-independence development in Sri Lanka. The use of the explanatory case study approach is justified on the grounds that the study intends to pay special attention to the national accounting body (i.e. ICASL), which is the only authorised organization established by an Act of Parliament for the accounting professionalization process in Sri Lanka. Lowe and Tinker express their views on accounting as a social science:

Accounting as a discipline and accounting practice should.....be regarded as integral part of social science and social behaviour (Lowe and Tinker, 1989: 47).

Thus this social behaviour should be examined through the social theory. Hopwood (1989) provided a much boarder view of accounting:

Accounting is coming to be regarded as an interested endeavour, Rather than being seen as merely residing in the technical domain, serving the role of neutral facilitator of effective decision-making, accounting is slowly starting to be related to the pursuit of quite particular economic, social and political interest (Hopwood, 1989:141).

Neuman (2003) defines social theory as “...a system of interconnected abstractions or ideas that condenses and organizes knowledge about the social world” (Neuman, 2003:42). Thus social theory helps researchers to understand and investigate complex social structures. Moreover, the theoretical foundation can be considered as the backbone of a comprehensive research study. As Coser observes:

One of the major functions of theory is to order experience with the help of concepts. It also selects relevant aspects and data among the enormous multitude of “facts” that confront the investigator of social phenomena (Coser, 1981; cited in Neuman, 2003).

Burrell and Morgan’s writings on their choices, through three “broad bands” labelled ‘theory’ ‘methodology’ and ‘change’, have proved to be useful insights. Laughlin comments that:

In broad terms choice with regard to “theory” involves deciding on a view about the nature of the world (Burrell and Morgan’s “ontology”) and what constitutes knowledge either past or present and how it relates to the current focus of investigation (Burrell and Morgan’s “epistemology” assumption). The choice in relation to methodology involves taking a position on an amalgam of the nature and the role of the observer in the discovery process (Laughlin, 1995: 66).

It is clear, therefore, that the relationship between theories and methodologies are interrelated. Methodologies and adopted theories reflect the epistemological and ontological assumptions of researchers (Llewelyn, 1992:22). However, Mouzelis (1995) argues that ‘theorization is in disarray in the social sciences’ and also that ‘theory and empirical research are disconnected’. The notion of “conceptual pragmatism” is proposed as a way out of this dilemma (Mouzelis, 1995:8). In response to Mouzelis’s argument, Llewelyn’s fifth level out of five levels of theories will not be used in the empirical research. As Llewelyn explains:

This seeming paradox can be understood in the context of the relative significance accorded to high and low levels of theorization by academics and lay people. Thus methodology intervenes into the process as to explain the way to conduct the research. Hence research methodologies and levels of theory are intertwined.

At lower levels ethnographic studies aim to capture the thoughts, beliefs, values and motivations of organization members through lengthy “immersion” in their worlds (Llewelyn, 2003: 692).

Therefore, the study uses the explanatory case study method which is deemed the most suitable for this research. The accounting professionalization process in Sri Lanka during the last fifty years is investigated primarily through oral history interviews with prominent individuals in the accounting profession in Sri Lanka. These oral history interview techniques are used to gather historical data as it allows the researcher to ask questions of the people who have been directly involved in the accounting and auditing profession in Sri Lanka. This technique allows interviewees to recollect their memories and express their ideas freely.

All these scholars (Laughlin, 1995, 2004; Llewellyn, 2003) have provided constructive guidance on conducting empirical research using qualitative data. After careful review and analysis of this guidance for empirical research approaches, it was decided to follow the middle way of handling data for this study. The “middle way” means selecting the “middle point” of the theories, methodologies and methods. In other words, a combination of Laughlin’s middle-range thinking and Llewelyn’s conceptual framing are

identified as the most appropriate methodical guides for conceptualization of the Sri Lankan accounting professionalization process. Because this study concerns practices of professionals who are acting as organized institutions, those acts are considered as the process of development of the accounting profession in Sri Lanka. Therefore, the study presents evidence about the accounting profession in Sri Lanka and the behaviour of professionals in relation to professional promulgations over the last fifty years. The next section explains the research methodology.

### **4.3 Laughlin's middle range thinking approach for empirical research in accounting**

Empirical studies in accounting were conducted by scholars initially at the beginning of the 1980s. Thus far, empiricists have used various theoretical and methodological approaches which have been borrowed mostly from financial economics. However, over time more and more behavioural concepts have been introduced into the context of accounting, reflecting a tendency to borrow and adapt social and political thinking from other disciplines. Within the last ten years, more and more empirical "behavioural" studies have relied on post-modernist thinking. Laughlin's middle-range thinking approach follows the same pattern (Laughlin, 1995: 64).

The main sources of data were gathered through interview evidence, thus viewpoints of the interviewees were considered as average opinions of the population. As Laughlin (1995) pointed out the 'middle range thinking' approach is the most appropriate approach for empirical studies in management/accounting since such studies focus on social and political perspectives. This opinion has been endorsed by Llewellyn (2003: 692) and she also commented through her conceptual framing model and suggested that out of her five levels of conceptual framing middle point would be considered as the methodological underpinning of the study (Laughlin, 1995; Llewellyn, 2003).

According to Table 4.2 Laughlin suggested medium/ medium/medium approach on the theory and methodology would be appropriate and more robust justification for case studies. In this chapter the researcher attempted to use Laughlin view as methodological perspective rather than a theory ('skeletal generalizations'). This case study considers the role of methodology as the mechanism to link the theory and subjective reality (empirical

findings) through ‘Skeletal’ structure which is an organized space to analyse the actual data in a systematic way (Laughlin, 1995). He further explains this:

Accounting theory will never be like theory of gravity. Accounting is a social practice conducted by diverse social actors. To claim that it has generalizable, theoretical characteristics similar to gravity is a proposition where there has to be some considerable leap of faith (Laughlin, 1995: 83).

Even though Laughlin construct his view based on Merton (1968) middle-range theory, he managed to remove the extreme views of the Merton’s theory when the theory adapted to use in the field of accounting. The middle-range theory was devised by Merton (1968) who defines it in the following way:

Sociological theory, if it is to advance significantly, must proceed on these interconnected planned: 1. by developing special theories from which to derive hypotheses that can be empirically investigated and 2. by evolving a progressively more general conceptual scheme that is adequate to consolidate groups of special theories.

Our major task today is to develop special theories applicable to limited conceptual ranges – theories, for example, of deviant behaviour, the unanticipated consequences of purposive action, social perception, reference groups, social control, the interdependence of social institutions – rather than to seek the total conceptual structure that is adequate to derive these and other theories of the middle range (Merton, 1968: 88).

The middle-range theory is considered an approach to sociological theorizing aimed at integrating theory and empirical research. According to Boudon (1991), the middle-range theory does not refer to a specific theory but, rather, is an approach to theory construction. This theory has been developed as an alternative to Parson’s (1968) directions on social theorization since Merton identified a major weakness in the Parsonian theoretical interpretation on empirical inquiry. Merton comments that Parson’s “formulations are remote from providing a problematic and a direction for theory oriented empirical inquiry into the observable worlds of culture and society” (Merton, 1968: 194).

In recent methodological trajectories of empirical research on accounting, Laughlin’s middle-range thinking has become a popular methodological formulation among many scholars who have added value to the extant cognitive base. The term, ‘middle-range’ was borrowed from Robert K. Merton’s ‘Social Theory and Social Structure’ in 1968 and Laughlin (1995) borrowed the term for his methodological representation of the ‘middle-range thinking’ approach to describe empirical research in accounting case studies.

However, Laughlin has stressed that his trajectory is ‘somewhat distant’ from the interpretation of Merton (1968), because, he has paid more attention to the Burrell and Morgan (1979) ‘study on theory and methodical views’.

Burrell and Morgan (1979) interpret a straightforward bipolar dualism that simplistically isolates many domains for choice. Undeniably a position being (ontology), on the role of investigator (human nature), on perceptions of society (society), on perceptions on understanding (epistemology) and ways to investigate the world (methodology) are implicit and vary in the empirical research. When the researcher considers these factors it is conveniently possible to group these concerns under three main choices of “Theory”, “Methodology” and “Change” (Laughlin, 1995: 66).

The accounting professionalization literature explains non-positivistic research methods to understand intricate issues emanating from a developing country context, especially from transitional societies (Cooper, *et al.*, 1989; Hopper *et. al*, 2009). Theory articulates and provides necessary assistance to a researcher to arrive at a view about the nature of the world (ontology) and what constitutes knowledge either past or present as well as how it relates to the current focus on investigation (epistemology).

Ontology is the theory being; it is designed to determine the nature of the fundamental kinds of things that exists. Theorist all have an ontological commitment, which is the assumptions about what there is and what sorts of things are assumed (Gaffikin, 2008: 6).

Organizations and their human relations are assumed to be socially constructed by the meanings attached to each social action of the social actor. In order to understand phenomena emanating from a subjective reality, a researcher has to apply an epistemology which may include actors’ approaches such as construction of meaning from social actions of the people.

Epistemology is usually referred to as the theory of knowledge and consists of the ‘rules’ of how and whether knowledge is acquired. An epistemology is any theory of what constitutes valid knowledge (Gaffikin, 2008: 7).

Taking this into consideration, the researcher used in-depth historical interviews in his research. In fact, the researcher’s interpretation of reality is an important part of the research process (Baxter and Chua, 1998).

The issue of generalizability (claiming that characteristics of the observed sample will prevail in the population) is not relevant in the subjective approach. In qualitative



research, the generalization comes from theoretical generalization and not from statistical generalization.

On the “theory” dimension it is possible to express the amalgam of concern in relation to the level of prior theorizing and prior theories that can legitimately be brought to the empirical investigation. This links to ontological assumptions about the nature of the world that researchers are investigating, and researchers’ views about its materiality as well as its generality of representation through previous theoretical endeavours are important. High levels of prior theorising are indicative of an assumed material world which, despite empirical variety, has high levels of generality and order and has been well researched through previous studies (Laughlin, 1995, 2004; Burrell and Morgan, 1979).

Methodology involves observing human nature through discovery methods which are connected to the amalgam of the nature and role of the observer in the discovery process (“human nature”). That forms the nature of the methods for the empirical investigation, which also has implicit implications for the role of the human agent in the process. This means that the actual way of conducting the investigation can either be defined according to some theoretical models of how the observer should see situation, or is more reliant on the implicit perpetual powers of the individual observer (Laughlin, 1995: 66).

Change involves taking a position on whether the investigation is intentionally geared to achieve change in the phenomena being investigated (“society”). What change means is complex and uncertain. However, in general, it refers to researcher attitudes concerning the worth or otherwise of maintaining the current situation that is being investigated, as well as views about the necessity for actually doing something about this situation. These two aspects of change differ as it is possible for an investigator to value the need for change but not have either the conviction or possibility to engender the change that is required (Laughlin, 1995: 66). Among the critical views for the Laughlin (1995) on middle range thinking, Roslender, (2012, CPA article in press) has synthesized some valuable input into the theory and methodological perspectives:

The principle distinction identified by Laughlin is between Merton’s interests in sustaining grand theory, a task he distances himself from as observed earlier. In view of the previous observation that Laughlin’s middle range thinking is more concerned with methodical than (Substantive) theoretical issues, it is appropriate to revisit the

relationship between middle range thinking and middle range theory (Roslender, 2012: 14, CPA article in press).

This suggests that middle range thinking identified by Laughlin and Llewelyn view on conceptual framing are appropriate and suitable to incorporate to understand the phenomenon in the context of accounting profession in Sri Lanka.

#### **4.3.1 An argument for “Middle-Range” thinking**

So, the choices can be based on a combination of ‘theory’, ‘methodology’ and ‘change’. In that sense, what would be the best possible combination of those choices? Laughlin indicates that theory, methodology and change may combine in a way that will provide the maximum benefit to empirical research by using three different combinations ranging from high to low. The ‘theory’ dimension refers to high to low levels of usage of prior theorizing before undertaking any investigation. The ‘methodology’ dimension ranges from high to low levels of theoretical closure on the methods of investigation. The ‘change’ dimension relates to high to low levels of critique with regard to the status quo and the need for change in the phenomena being investigated (Laughlin, 1995: 68). It is an obvious fact that a high level of theory and a ‘high level’ of methodology give the message that an empirical study is strongly interested in predictive and explanatory theory while the ‘low level’ perspective almost prefers to concentrate on specific cases without any reference to an overreaching theory or methodology. When we consider the medium perspective, it must always lie somewhere in between ‘high’ and ‘low’ combinations. Thus, it is important to note that a high level of ‘change’ takes the view that “everything they see is bound to be inadequate and incomplete and in need have change even though not always in a position to engender the change desired” (Laughlin, 1995: 68). Justification for middle range thinking, as an approach to qualitative studies, has been given by the Laughlin (1995) and he further stressed the human’s nature and their trait:

What distinguishes human beings from all other animate and an inanimate form is our sophisticated ability to communicate with one another through the spoken and written world. This not to say that as human beings we have distinct non-verbal skills and abilities which we use extensively in communication but simply that ability to talk, discuss and argue with one another is a basic and very important human trait and one which we should and do, use extensively in making important choices in our lives and justifying them to others (Laughlin, 1995: 78).

Merton's (1968) 'middle-range' thinking refers more to an initial limitation of the social focus for the discovery process. Thus it is somewhat different to the nature of theory, methodology and change. Merton has used high levels of theory and methodology with minimal change and social concern with the hope that a grand general theory for all actions and activities can be discovered. The middle-range theory of Laughlin's has no pretensions to the development of a grand general theory. However, his middle-range is a common structure which he could use to construct theoretical and methodological frames with minimal changes by supplying empirical data about the social phenomena (Laughlin, 1995: 70).

Thus, Laughlin (1995) has stressed the importance of making deliberate choices on theoretical and methodological perspectives before commencing data collection. In that way he believes that it is possible to avoid 'biases' and assumptions that can underpin the study. Moreover, he believes that 'middle-range' or the medium scale or the mid-point of the choices in other words a medium/medium/medium combination of the "theory/methodology/change" would be the best possible combination to conduct empirical research in accounting. The 'middle-range' is an ever skeletal theory until it is filled with empirical data. Thus for middle-range thinkers, empirical detail is highly important to make the skeleton complete in particular contexts. The strength of the medium position is that it uses the theory in a practical way, realising that it is possible to learn from other situations using theoretical insights. Alternatively, by considering individual cases and looking at them through skeletal theories, it would be possible to capture the richness of real life situations in accounting environments (Laughlin, 1995: 71). Table 4.2 summarises the key points of difference between the high, medium and low perspective theory, methodology and change respectively.

**Table 4.2 some key characteristics of the dominant schools of thought**

	<b>High/High Low</b>	<b>Medium/Medium /Medium</b>	<b>Low/Low Low</b>
<u>Theory characteristics</u>			
Ontological belief	Generalizable world waiting to be discovered	“Skeletal” generalizations possible	Generalizations may not be there to be discovered
Role of theory	Definable theory with hypotheses to test	“Skeletal” theory with some broad understanding of relationship	Ill-defined theory – not prior hypotheses
<u>Methodological characteristics</u>			
Role of observer and human nature belief	Observer independent and irrelevant	Observer important and always part of the process of discovery	Observer important and always part of the process of discovery
Nature of method	Structured, quantitative method	Definable approach but subject to refinement in actual situations, invariably qualitative	Unstructured ill-defined qualitative approach
Data sought	Cross-sectional data used usually at one point in time and selectively gathered tied to hypotheses	Longitudinal, case-study based. Heavily descriptive but also analytical	Longitudinal, case-study based. Heavily descriptive
Conclusions derived	Tight conclusions about findings	Reasonably conclusive tied to “skeletal” theory and imperial richness	Ill-defined and inconclusive conclusions but empirically rich in detail
Validity Criteria	Statistical inference	Meanings: researchers researched	Meanings: researched
<u>Change characteristics</u>	Low emphasis on changing status quo	Medium Emphasis open to radical change and maintenance of status quo	Low Emphasis on changing status quo

Source: Adopted from Laughlin (1995: 80)

As it is indicated in the Table 4.2 these are three alternatives {(High/High/Low), (Medium/Medium/Medium) and (Low/Low /Low)}, High/High/Low and Low/Low/Low are extremes which are not suitable for empirical studies. Medium/Medium/Medium is on human activities (such as interactions, discourses, dialogues and arguments) are valuable insight into this qualitative study. Thus, this study utilized Medium/Medium/Medium approach as the suitable alternatives for empirical case study.

#### **4.3.2 Critiques and counter critiques on middle range thinking**

The middle-range theory provides good insights into empirical research in accounting as a skeleton for an empirical study. However, Laughlin's middle-range thinking has been subjected to many criticisms; for example 'the approach used in this paper is invalid' (Lowe, 2004a), 'Laughlin's framework is insufficient to explain the use and impact of accounting during change' (Gurd, 2008). There are also some counter arguments: "My comment, therefore, will inevitably critique the argument of Lowe (2004)" (Laughlin, 2004:262), "Laughlin's paper is rhetorical -Lowe's paper schizophrenic, for the critical tonality of his language sets up a science versus rhetoric battle" (Chua, 2004: 257) and an "unhealthy emphasis on small things that combine to produce convincing arguments and 'facts'" (Lowe, 2004b: 279).

It seems Laughlin's intention was to extract the essence from the Merton's Middle Range Theory in order to articulate a methodology for qualitative research. In fact it has contributed a lot to the qualitative research discipline; Llewelyn (2003) commented that:

Methodologies (and espoused theories) reflect the epistemological and ontological assumptions of researchers. Hence research methodologies and levels of theories are intertwined (Llewelyn, 2003: 692).

Thus Laughlin (1995, 2004) contributions to methodology for qualitative studies can be considered as tremendous effort to add value to the qualitative studies in management and accounting (especially to professionalization theory).

#### **4.4 Llewelyn's theory choices for qualitative research in accounting**

Llewelyn (2003) suggests the most appropriate theoretical framework, "conceptual framing", for empirical research in accounting. She believes there are possibilities that her idea of 'conceptual framing' may break the boundaries of high abstract schema which

we generally call ‘theory’. For example, ‘social theory has been described as a system of interconnected abstractions of ideas that condenses and organizes knowledge about the social world’ (Neuman, 2003). Coser (1981) identifies the role of ‘theory’ in the following way:

One of the major functions of theory is to order experience with the help of concepts. It also selects relevant aspects and data among the enormous multitude of “facts” that confront the investigator of social phenomena (Coser, 1981: 170).

Both Neuman and Coser have defined ‘theory’ and provided generalized approaches to empirical studies. But Llewelyn has focused specifically on empirical research in accounting, arguing that qualitative empirical research in accounting disciplines lies in its “conceptual framing” of organizational actions, events, structures and processes (Llewelyn, 2003). Llewelyn (2003) further stated that:

Qualitative research in the management and accounting disciplines engages in empirical work to gather information on organizational actions, events, structures and processes. After this field research is over, researchers face some challenging questions. How should these actions and events be understood? How can organizational structures and processes be explained? The standard response to such questions is to “incorporate some theory” into accounts of these organizational issues. Theorization (or conceptual framing) is the “value-added” of qualitative academic research (Llewelyn, 2003: 662).

Therefore, methodology articulates the exact way of research is conducted by identifying an appropriate theoretical framework for study under investigation. In this study an empirical investigation has been done to find out the nature of the accounting profession in Sri Lanka during the post-independence period using theory of sociology of professions. Middle range thinking provides an appropriate methodological framework to explain and generalize this empirical study.

#### **4.4.1 Conceptual framing**

Llewelyn (2003) muses that when field research is over, researchers (including herself) face some challenging questions: How should these actions and events be understood? How can organizational structures and processes be explained? To answer these questions a theoretical base is needed: conceptual framing fills the gap (Llewelyn, 2003).

In support of her argument, Llewelyn introduces five forms of theorization for qualitative research in accounting: metaphor, differentiation, conceptualization, context-bound theorizing of settings and context-free grand theorizing. She explores the relationship between these five theoretical ‘levels’ and the different issues that empirical research

raises, arguing that, as the level of theorizing rises, issues of agency give way to a focus on practice and, in turn, to a concern with structure (Llewelyn, 2003: 662).

All five levels of theorizing (i.e. metaphor, differentiation, conceptualization, context-bound theorizing of settings and context-free grand theorizing) have been introduced to choose from, depending on the requirement of the empirical study. Because each theoretical ‘level’ has its own specific focus, empirical issues are considered and categorised into levels after careful consideration of claims. Table 4.3 summarises the levels of theorization and provides a brief description of each level.

**Table 4.3 Levels of theory relating to different empirical issues**

Level	Theory	Focus	Empirical issue	Claim
1	Metaphor theories	By imaging (just checking you mean this and not imagining) and grounding experience	Micro reasons, actions; social production	Grounds experience
2	Differentiation theories	By “cutting the pie” of experience	Micro social process	Cuts up experience
3	Concept theorize	By linking agency and structure through practice	Meso agency – how individuals make things happen through resources	Explicate practices
4	Theorizing Settings	Explaining how contexts for practices are organized	The social organization of relationship between individuals, organizations and environments	Explains relationship between social phenomena in context
5	Theorizing Structures	Explaining impersonal, large scale and enduring aspects of social life	Class, gender, power relations and the distribution of resources	Explains universal, a-historical and large scale dimensions of social life

Source: adopted from Llewelyn, (2003: 668-680)

Llewelyn's (2003) study identifies some similarities between the 'interpretive approach', 'middle-range theory' and 'conceptual framing'. This may be because all these approaches are designed to deal with human related empirical studies (for example 'human interaction', relationship and 'practices'). Out of these three approaches, Laughlin's (1995) middle-range thinking approach and Llewelyn's (2003) 'conceptual framing' are specifically focused on empirical research in accounting. Therefore, this study considers Laughlin's and Llewelyn's models rather than Neumann's 'interpretive approach', which provides guidance for general theorization of empirical studies. As indicated above, middle-range thinking and conceptual framing are the approaches used in this study. Following is a brief discussion of those two theories, together with a comparison.

Conceptual framing is an approach that has classified theorizing into five levels and claims that each level has its particular strength with respect to empirical research issues. For example, change through emergence would likely be theorized at level one, two and three, whereas structural phenomena are usually analysed at levels four and five. Llewelyn suggests researchers select the middle one (conceptual framing) when conducting qualitative research, as it is explained Laughlin suggests to select mid-point of the middle-range approach. Llewelyn's comments on theory relating to different empirical issues are given below.

Reasons, actions, agency, social process and social production are better understood through metaphor, differentiation, categorization and conceptualization, while causes, structures, social "forces" and social reproduction become the focus of level four and five theories (Llewelyn, 2003: 687).

However, the foregoing does not mean that level three (conceptual framing) is the best level to use as a theoretical frame for every phenomenon in empirical research. Similarly, 'micro' phenomena such as motivation, intention, social interaction and the presentation of self, tend not to be well captured in any theorization above level three, while macro phenomena such as class, gender and power relations, culture and the distribution of resources, are not generally theorized below level four (although the concepts underlying these relations may be theorized at level three). The theorization of meso-phenomena such as practices (or how people make things happen in a particular context), are generally discussed at level three, which is conceptual framing (Llewelyn, 2003). This study, as a qualitative research in accounting, engages in empirical work to collect



information on professional accountants' actions, events and their decisions on institutional arrangement and its structures and processes. Once the field research is over the researcher faces a challenging question of which theory to be incorporated in order to explain structures and processes. Llewellyn's conceptual framing appears to be offered greater understanding of empirical issues together with middle-range approach to understand the phenomena and sociology of professions based social closure.

#### **4.5 Summary**

The methodological approach of this study draws heavily upon the "middle-range" thinking approach from Laughlin (1995, 2004) and Llewellyn (2003) on qualitative accounting research, using a case study method. The justification of the selection of research methods depends on the nature of a research problem and the researcher's ontology. Llewellyn (2003) argued that the understanding of actions and events, and the explanation of organizational structures and processes can be explained in a descriptive manner by incorporating a theoretical framework. Theory provides both a framework and basis for critically understanding phenomena.

Different combinations of theory methodology and change can be used when conducting research in respect to different perspectives. To what extent theory, methodology and change can be combined, has been debated. Therefore, Laughlin (1995) presented an idea by placing these three elements into three positions: high, medium, and low. "Middle-range" thinking was defined by Laughlin as '...taking a mid-point on each of the three continuums (theory, methodology and change)' (Laughlin, 1995:78). However, Laughlin did not specifically explore the application of different levels of theory to accounting research, as '...accounting is a social practice conducted by diverse social actors' (Laughlin, 1995: 83).

Conceptualisation is the middle point of the five levels of theorizing introduced by Llewellyn (2003), linking the lower levels of theorization (metaphor and differentiation) to the higher levels (context-bound and context-free theorizing). Each level has particular strengths with respect to empirical research issues. The middle point conceptualization is the most appropriate form of approach for studies on accounting professionalization (using the sociology of professions) because it relates closely to practices and to telling

the story (narrative) of how individuals made and make things happen through context and circumstances.

This is similar in nature to the middle-range theory discussed by Laughlin (1995). The next section describes precise research methods used in this qualitative research and discusses techniques that are applicable to the research question.

## **Part 11: Research methods**

### **4.6 Introduction**

Theoretical perspectives in sociology and science-based research suggest that data cannot be generated simply in order to arrive at an overall objective of the research. Thus, the selection of research methods is a crucial task of the methodology. Mason points out that the choice of methods should reflect the ‘overall research strategy’ (Mason, 1996:19). According to Silverman (2005), the:

...choice of method should reflect both your research topic and your overall research strategy as your methodology shapes which methods are used and how each method is used (Silverman, 2005: 122).

Section 3.2 provided methodological insight into the study (theoretical and methodological choices), and also justified the selection of conceptual framing and middle-range thinking to construct the methodological base for this study. In Section 3.4 the research method was presented and discussed. As discussed in the previous section, an amalgam of a medium level of theory, of methodology and of change (middle-range approach) is used to explain the way in which the data collection and analysis are done. This chapter has discussed competing approaches to social research based on different philosophical assumptions about the nature of social reality. The social reality that a researcher endeavours to understand is assumed to socially construct with multiple meanings given by multiple actors. Thus a researcher with subjective ontology attempts to connect different meanings from key actors to form his/her understanding of the real problems. In this research the researcher has used in-depth interviews from multiple actors, namely, retired accounting and auditing professionals, government accountants, audit practitioners and university academics to ascertain multiple meanings.

This study uses an explanatory case study approach. Case studies appear to be useful in many ways. When it relates to exploration of a new phenomenon, the case study approach can offer deeper insights into the phenomenon under observation (Bergen, 2000; Riege, 2003).

### **Research questions:**

The research questions for this study are formulated by considering important aspects of professional accounting promulgation during the last fifty years in Sri Lanka. Research questions are developed as follows:

#### **Main question:**

1. What is and what has been the nature and extent of the professional challenges, maintenance of controls, conflicts and interactions between professional groups and the influence of Britain on the professionalization of accounting in Sri Lanka?

#### **Sub-questions:**

1. What was the nature and extent of the institutional influence of British-based professional accountancy bodies (ACCA, CIMA) on the development of the accountancy profession in Sri Lanka?
2. How did the ICASL council maintain conditions which gave rise to exercising strategies to control the profession?

As indicated earlier, the main source of data is gathered (via in-depth interviews) from the most senior professional accountants and academics who have participated and still do in various important committees in relation to the development of the accounting profession in Sri Lanka. Most of the interview questions are semi-structured. See Appendix 1 to see the list of interview questions.

The researcher strongly believes that the interview questions adequately support the choice of Laughlin's middle-range thinking and Llewelyn's 'conceptual framing' approaches to construct the argument for this study. This is because they constitute an enquiry into human actions, behaviours and attitudes. The conceptual frame develops relationships between organizations and societies through practice; thus it concerns

everyday life, actions, events, local knowledge, social order, membership and accountability (Alvesson and Skolberg, 2000:130). As already noted use of the middle-range theory and the middle level of the conceptual framing means that extremes are avoided in this research. However, as Laughlin comments “Middle range can only ever be ‘skeletal’ theories in social phenomena” (Laughlin, 1995: 79); thus, in this research the skeleton is filled with flesh (empirical data) methodically in order to develop a richer set of data for analysis.

#### **4.6.1 Data collection**

The study employs a qualitative research approach. The main data collection for this research was performed using oral history interviews and archival records. In addition, secondary sources such as published articles, relevant legislation, government reports, books and websites were reviewed. This section provides details of the interviewees and to what extent the interviewee responses have been able to address the research questions associated with this study. Oral history interviews can reveal how individual levels and actions shaped the past, and how the past shapes present-day values and actions. Thus, it creates a more vivid, firsthand and accurate picture of our past and has been used in many professional accounting studies (Carnegie and Napier, 1996; Collins and Bloom, 1991; Hammond and Sikka, 1996; Parker, 1987, 1997, 1999, Previts, *et al.*, 1990; Sian, 2006). The oral history approach was carried out by conducting semi-structured interviews with individuals involved in accounting, such as founding members, board members and executive committee members of the professional association in Sri Lanka, ICASL.

#### ***Oral history interview technique***

As pointed out by scholars (Parker, 1997; Sikka, 1996; Sian, 2006), oral history interviews are one of the most powerful means of recording and preserving the unique memories and life experiences of people whose stories might otherwise have been lost. Oral history interviews are grounded in memory, and memory is a subjective instrument for recording the past, always shaped by the present moment and the individual consciousness (Truesdell, 2010). Thus, oral history interviews can reveal how individual levels and actions shaped the past, and how the past shapes present-day values and actions. According to Hammond and Sikka, (1996) “certainly, oral histories have a

potential to reveal different representations and interpretations of the ‘same’ set of events, since they go beyond the official written evidence privileges” (Hammond and Sikka, 1996:81). Thus, it creates a more vivid, firsthand and accurate picture of our past and has been used in many professional accounting studies (Carnegie and Napier, 1996; Collins and Bloom, 1991; Hammond and Sikka, 1996; Parker, 1987, 1997, 1999; Previts, *et al.*, 1990; Sian, 2006). The author, therefore, believed that the oral history technique would be suitable for recollecting a series of events and actions and reactions from the past. Therefore, the oral history approach was carried out by conducting semi-structured interviews with prominent individuals (such as founding members) in the professional accounting association, ICASL, in Sri Lanka. In this regard the Oral History Association’s focus is important:

Oral history is distinguished from other forms of interviews by its content and extent. Oral history interviews seek an in-depth account of personal experience and reflections, with sufficient time allowed for the narrators to give their story the fullness they desire. The content of oral history interviews is grounded in reflections on the past as opposed to commentary on purely contemporary events (Oral History Association, 2009).

Data collection in qualitative research is not an easy task but a highly important one which can influence the quality of the research outcome. Most (2003) defines data collection as:

...the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes. The data collection component of research is common to all fields of study including physical and social sciences, humanities, business. While methods vary by discipline, the emphasis on ensuring accurate and honest collection remains the same (Most, *et al.*, 2003: 1340).

Thus, collection of data is a crucial part of any research project (Humphrey and Lee, 2004: 228). It is a pivotal task aimed at providing answers to the research questions.

Samples for qualitative studies are generally much smaller than those used in quantitative research (Ritchie, *et al.*, 2003 cited in Manson, 2010:1), the aim of the former being to ensure data saturation. Primary data for this study was collected from 25 respondents using semi-structured interview questions with senior members of the ICASL, Sri Lankan state sector accountants and Sri Lankan accounting academics. Mason (2010) has found that the size most commonly used for an interview sample is between 20 and 30

interviewees. Mason's finding came from a comprehensive study of interview samples in which she looked at 560 qualitative PhD studies. She presents her study findings as follows:

The most common sample sizes were 20 and 30 (followed by 40, 10 and 25). The significantly high proportion of studies utilising multiples of ten as their sample – There is no logical (or theory driven) reason why samples ending in any one integer would be any more prevalent than any other in qualitative PhD studies using interviews (Mason, 2010: 10).

For this study, primary data was collected from two geographic locations – Sri Lanka and Australia. As for population, Sri Lanka faced an ethnic war for more than 30 years, which came to an end in 2009. As a result of the ethnic war, political instability and social unrest in the country, significant numbers of professional accountants left Sri Lanka. According to 2010 statistics from the ICASL, nearly 400 ICASL members had migrated to Australia, many of whom worked as accountants. This fact has provided a good opportunity for the researcher to conduct some interviews with Sri Lankan accountants who now live in Australia.

#### **4.6.2 The interview strategy**

Before the commencement of interviews, it is crucial to develop a comprehensive strategic plan for the interview process and content of the questionnaire. Thus, a pilot test was conducted, with 5 Sri Lankan chartered accountants (three professional accountants and two accounting academics) who have migrated to and continue to reside in Melbourne, in order to assess the questions and approach that were designed to be used in the interview process. The pilot test results showed that the researcher was not able to obtain complete answers to all of the interview questions from one person. To overcome this problem in interviews, the researcher checked the profile of each interviewee prior to the interview and adjusted his line of questioning accordingly. Thus, interview questions and related notes were refined and some questions were revised based on the results of the pilot test. This strategy proved to be successful.

The respondents were selected from the directory of members of the ICASL, CAB, CIMA and ACCA. The researcher worked in the public sector accounting profession in Sri Lanka for 16 years and was therefore able to use his network of contacts for initial

interviews using a snowball approach; these interviewees were able to suggest other senior accounting practitioners.

All interviews were conducted in the English language. In the second visit to Sri Lanka, the researcher conducted follow-up interviews to clarify and/or confirm issues covered in the original interviews, as well as to authenticate textual materials gathered in relation to the accounting profession in Sri Lanka.

Some interviewees requested details of the interview questions during the pre-interview phase. This request was accommodated and meant that the interviewees concerned were well prepared to answer the questions. Overall, interviewees were happy to participate in the research and were keen to see the outcome, believing that the study would contribute to the development of the Sri Lankan accounting profession. Several interviewees expressed their interest in having further discussions to share their experiences; these were followed up during the second visit to Sri Lanka.

#### **4.6.3 Interview process**

This research is investigating the accounting professionalization process in Sri Lanka over a period of fifty years. It was therefore important to obtain interview data as historical evidence as well as opinions from local accountants who were practising professionals prior to the establishment of the national accounting body in 1959. As explained in the previous chapter, the Sri Lankan accounting profession was initially started by British professional accountants during the British administration. So this study should reveal how British professional accountants were involved in the indigenous accounting professionalization process. Since this is a case study mainly based on interview data, Eisenhardt and Graebner's (2007) 'Theory building from cases: opportunities and challenges' highlight the following on interview data:

Case studies can accommodate rich variety of data sources, including interviews, archival data, survey data, ethnographies, and observations. ... Interviews are highly efficient way to gather rich, empirical data, especially when the phenomenon of interest is highly episodic and infrequent (Eisenhardt and Graebner, 2007: 28).

This perception is absolutely true because at an interview process the researcher meets different people thus their attitudes are totally different from each other.

To meet this objective, the researcher contacted and interviewed some retirees who worked as professional accountants in Sri Lanka under the British colonial regime. This strategy aimed to capture accounts of historical incidents and discourse on them pertaining to the accounting profession as it was, drawing on the memories of those involved in the accounting professionalization process in Sri Lanka. Some interviewees qualified with the ICAEW and others with the CAB. These professional accountants ultimately played an active role in the accounting profession, securing senior positions in the government or business sectors. They were also involved in various committees appointed by the ICASL and the state. As a consequence, these respondents' comments about the development of the Sri Lankan accounting profession represent a major contribution to this study.

As the research involves human subjects, it was necessary to secure ethics approval. The ethics application was submitted to the RMIT Business College Human Ethics Advisory Network (BCHEAN). When approval was received from BCHEAN, interviews were conducted within the framework set by the RMIT University ethics procedures and regulations. No personal information was gathered from interviewees. Therefore the research is considered as Category 2 (within the ethics category of 'Minimal Risk').

The respondents for this study were selected by using the members' directory of the ICASL and members' directory of the Sri Lanka Accountancy Board. Prospective interviewees were contacted personally by the researcher, either by e-mail or phone, and invited to participate. The following list specifies the rights that participants have, as outlined in the Plain Language Statements (PLS) given to potential participants.

- Participants have the right to withdraw their participation at any time, without prejudice.
- Participants have the right to request any unprocessed data related to their participation in this project to be withdrawn and destroyed.
- Participants have the right to request a timely response from the investigator for any questions related to this research project.

All participants signed a Consent Form, agreeing to be involved in the research. A time and place for the interview was then agreed upon with each participant. Interviews took place in the offices of the respective interviewees or at a mutually agreed location. With the permission of each participant, the interviews were recorded. All recorded data was transcribed, encrypted and archived. Each participant was given a number. Assurance



was given that the data was confidential and that, if used in publications, the identity of the interviewees would not be revealed.

The transcribed data was stored during the analysis phase of the research on the investigator's desktop computer at RMIT University in the School of Accounting. A digital storage device was used to back up the encrypted data, and stored in a secure place. As shown in Table 4.4, a total of 25 interviewees, representing five categories of respondents, participated in the study; not all were retired.

**Table 4.4 Interviewed respondents**

<b>Categ ory</b>	<b>Group of respondents</b>	<b>Phase-1</b> Interviews conducted from 15 <sup>th</sup> November to 15 <sup>th</sup> December, 2009	<b>Phase-2</b> Interviews conducted from 9 <sup>th</sup> December to 23 <sup>rd</sup> December, 2010
1	Professional Accountants qualified from the ICAEW	1 <sup>12</sup>	1 <sup>13</sup>
2	Professional Accountants qualified from the Ceylon Accountancy Board	1 <sup>14</sup>	1 <sup>15</sup>
3	Professional Accountants qualified from the ICASL (private and public sector)	15 <sup>16</sup>	1 <sup>17</sup>
4	Professional Accountants who belong to the Sri Lanka Accountancy Service Board	2 <sup>18</sup>	1 <sup>19</sup>
5	Accounting Academics from the Sri Lankan universities	1 <sup>20</sup>	1 <sup>21</sup>
	<b>Total</b>	<b>20</b>	<b>5</b>

As shown in Table 4.4, the interviewees were divided into five sub groups depending on their professional membership and educational background. In Category 1, one of the ICAEW accountants had worked for the Ministry of Finance and had then been

<sup>12</sup> Partner of Leading Audit Firm in Sri Lanka .

<sup>13</sup> Held several responsible government positions including member of the ICASL Council, and Assistant Secretary to the Treasury and chair person of FTA.

<sup>14</sup> Qualified from the CAB and worked as an accountant in several British companies and later started his own Audit firm.

<sup>15</sup> Held responsible positions in the state sector and member of the council, finally worked as an Auditor General of Sri Lanka.

<sup>16</sup> Members of the ICASL including: Presidents of the Council the ICASL, ACCA and SCMA and Council members of ICASL.

<sup>17</sup> Retired Auditor General and consultant to the Asian Development Bank (ADB).

<sup>18</sup> Member of IPFDA, Director General of the Treasury and consultant to the World Bank.

<sup>19</sup> Director General of General Treasury Sri Lanka.

<sup>20</sup> Member of Council and a professor of accounting at a leading university in Sri Lanka.

<sup>21</sup> One of the Directors of the Securities Exchange Commission (SEC).

appointed as Auditor General of Sri Lanka, occupying that position until he retired. The other Group 1 person is a senior partner of a leading audit firm in the city of Colombo. Category 2 is CAB-qualified professional accountants. One has worked for the state sector for 35 years and the other one is a senior partner of an audit firm in Colombo. Group 3 consists of 16 ICASL-qualified accountants who hold senior positions, such as Chief Finance Officer of a major commercial bank and president of a major accounting body in the private and public sectors. Group 4 represents state sector professional accountants<sup>22</sup>. The fifth and final group of interviewees consists of university accounting academics; one interviewee is a senior professor in accounting and also professionally qualified chartered accountant from the ICASL. The other one is an academic who is an active professional accountant; they were involved with ICASL and the university in decision-making meetings and had contributed through their views to development of the relationship between the university and the accounting profession. The other academic is working as a senior lecturer at a university and takes part in senior management (called 'Senate' in the university system in Sri Lanka) meetings of the university. Pleasingly, all interview groups provided a significant amount of interesting and pertinent information to enrich this study.

Interviews were conducted at two different intervals. Phase 1 commenced from the 15<sup>th</sup> of November and ended on 15<sup>th</sup> of December, 2009, and Phase 2 commenced from the 9<sup>th</sup> of December and ended on 23<sup>rd</sup> December, 2010. The interviews were tape-recorded and transcribed by the researcher himself. Interviews varied in length from one to 1.5 hours each. Nearly half the interviewees were retired or semi-retired; this was an advantage for this study as respondents were able to track and recall historical incidents relating to the professionalization of accounting in Sri Lanka, due to their age.

#### **4.6.4 Strength of the interview**

It is a known fact that semi-structured interviews are non-standardized and frequently used in qualitative research. Under semi-structured interview process the interviewer does not do the research to test a specific hypothesis (David & Sutton, 2004). According to Gray (2004) probing is a way for the interview to explore new paths which were not initially considered (Gray, 2004, p. 217). The researcher conducting semi-structured

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<sup>22</sup> This accounting service is called the Sri Lanka Accountants Service (SLAs). These accountants can only work in State Ministries, Departments and Provincial Councils. The Sri Lankan Accountants service board and Sri Lanka examination department work together to recruit accountants to the state sector.

interviews is freer one than research conducting a structured interview (Kajornboon, 2004: 75) in which the interviewer does not have to adhere to a detailed interview guide. The interviewer makes an attempt to get interviewees view on selected and carefully developed key questions on one particular area of study. The advantage of this type would be; questions can be changed according to the situation or in other words depending on the direction of the interview. According to Corbetta (2003) the semi structured interview would provide following advantages:

- The order in which the various topics are dealt with and the wording of the questions are left to the interviewer's direction.
- The interviewer is free to conduct interviews as he thinks fit and he can consider appropriate wording for giving explanation about the questions and ask for clarification from the interviewee.
- Good for measuring attitudes and most other content of interest.
- Allows probing and posing of follow-up questions by the interviewer.
- Can provide in-depth information.
- Can provide information about participants' internal meaning and ways of thinking.
- Closed-ended interviews provide exact information needed by researcher.
- Moderately high measurement validity (high reliability and validity) for well-constructed and tested interview protocols.
- Relatively high response rates are often attainable.
- Useful for exploration as well as confirmation.

Corbetta (2003: 270)

The research method for the interviews has its own shortcomings such as researcher bias, poor recall and inaccurate articulation or interpretation (Yin, 2009: 85). In addition, there are problems with respondents perhaps seeking to mislead the researcher, or forgetting to mention important events from the past (Denzin, 1977, cited in Silverman, 1985: 163; Parker, 1987; 1997). To assist in ameliorating some of these limitations, interview questions presented to respondents were modified as researchers saw fit and appropriate. A summary of interview questions are provided in Appendix 1.

#### **4.6.5 Limitations of the interview process**

In conducting interviews, ethical issues are the main concerns to secure human ethics. Thus as it is discussed earlier the ethics approval is vital before launching the interview process. It is generally recognized that, as a primary data collection method, interviews have a number of shortcomings; these shortcomings include:

1. Researcher bias, poor recall and inaccurate articulation.
2. Problems with respondents perhaps seeking to mislead the researcher.
3. Interviewees forgetting to mention important past events.
4. Due to some sensitivity respondents are reluctant to provide valuable information.
5. The researcher obtains cooperation and builds rapport, yet the interviewee remains neutral when the researcher seeks valuable information.
6. The researcher encroaches on the participants' time and privacy when information sought may not directly benefit the latter and thus may reduce rigour of information.

These limitations represent a threat to the validity and reliability of the study. Therefore, measures were taken to reduce such a threat by validating data through the triangulation technique. Multiple data collection methods are discussed in the next section.

#### **4.6.6 Sources of archival evidence**

Sources of archival records utilised included the ICASL archives, in relation to professional accreditation procedures and the Sri Lankan accounting profession. This archival data and records of the National Archives of Sri Lanka on the CAB and ICASL were the main sources used for this study. These were attained from the National Archives of Sri Lanka, which houses documentary records such as Hansard reports, sessional papers of parliamentary committees, newspapers and the ICASL annual reports.

These archives were an important source of information and provided important data used in this study. Although the task of collecting data from archival sources is both time consuming and inconvenient – given that databases are housed in multiple locations – historical records needed to be accessed as the study covers about fifty years of history

from the accounting professionalization process. For example, the reports of special committees appointed by the Cabinet or by the respective ministers would disclose relatively unbiased facts about existing accounting systems and procedures. These independent streams of information enrich the understanding of social, political, demographic, economic, geographic and historical trends and issues of the accounting professionalization process in Sri Lanka.

### **Secondary sources:**

The secondary sources used include practitioner journals of relevant accounting bodies – in particular the ICASL, ICAEW, CIMA, ACCA, CMA – and government documents, correspondence files, relevant laws, proclamations and newspaper reports. Literature on the accounting professionalization process in other countries, found in academic journals, professional journals and books, was reviewed, as were monographs, central bank reports, conference papers, newspaper articles, unpublished PhD theses, working papers and workshop materials.

### **3.6.7 Summary**

As indicated earlier, each qualitative data analysis requires the researcher to devise his or her own method for presenting the results. Accordingly, the researcher has identified the methodological position as being rooted in a qualitative case study approach to social science rather than a quantitative approach. In this method of qualitative research, the data is transcribed, written and documented accompanied by analytical summaries. The use of tables and graphs, and a careful consideration of the order and logic of presentation serve as the foundation of a quality research process through the oral history interview and recursive analysis approach. The interview program described in this chapter produced the data through which qualitative analysis and interpretation forms the basis of this thesis.

## **4.7 Processing and analysis of the data**

The data collected was coded and analysed manually rather than using qualitative research software. This approach was chosen, as the process involved in using some software packages, such as NVivo9, can be complex, tedious and time consuming, especially when numerous coding levels are involved (Bernrot and Hagiwara, 2008).

Qualitative data was in the form of text, written words, phrases or symbols describing or representing people, discourses, actions and events in social life. This does not mean that qualitative data analysis is based on speculation or on vague impressions; it can be systematic and logically rigorous although in a different way from quantitative or statistical analysis (Neuman, 2003:16).

However, a common criticism of qualitative research is that data analysis is not made explicit or open to inspection and does not disclose mechanisms. Over time, qualitative analysis has moved to a more explicit and systematic step-by-step approach. A recent trend in qualitative methods involves collecting a great deal of “rich” information about relatively few people or organizations rather than collecting more limited information from a large number of people or organizations (Neuman, 2003: 440,441).

However, there is no widely accepted standard or uniform approach to qualitative data analysis. The common thread that binds qualitative analysis is to gather the shared goal of uncovering the underlying meaning of the phenomena being studied. Qualitative researchers can use a combination of techniques or even invent methods to provide a broad understanding of a social situation (Ticehurst and Veal, 2000).

“A qualitative researcher analyses data by organizing it into categories on the basis of themes, concepts, or similar features” (Neuman, 2003: 441). In qualitative research, ideas and evidence are mutually interdependent. This applies particularly to case study analysis. Cases are not given pre-established empirical units or theoretical categories from data; they are defined by data and theory. By analysing a situation, the researcher organizes data and applies ideas simultaneously to create a specific case.

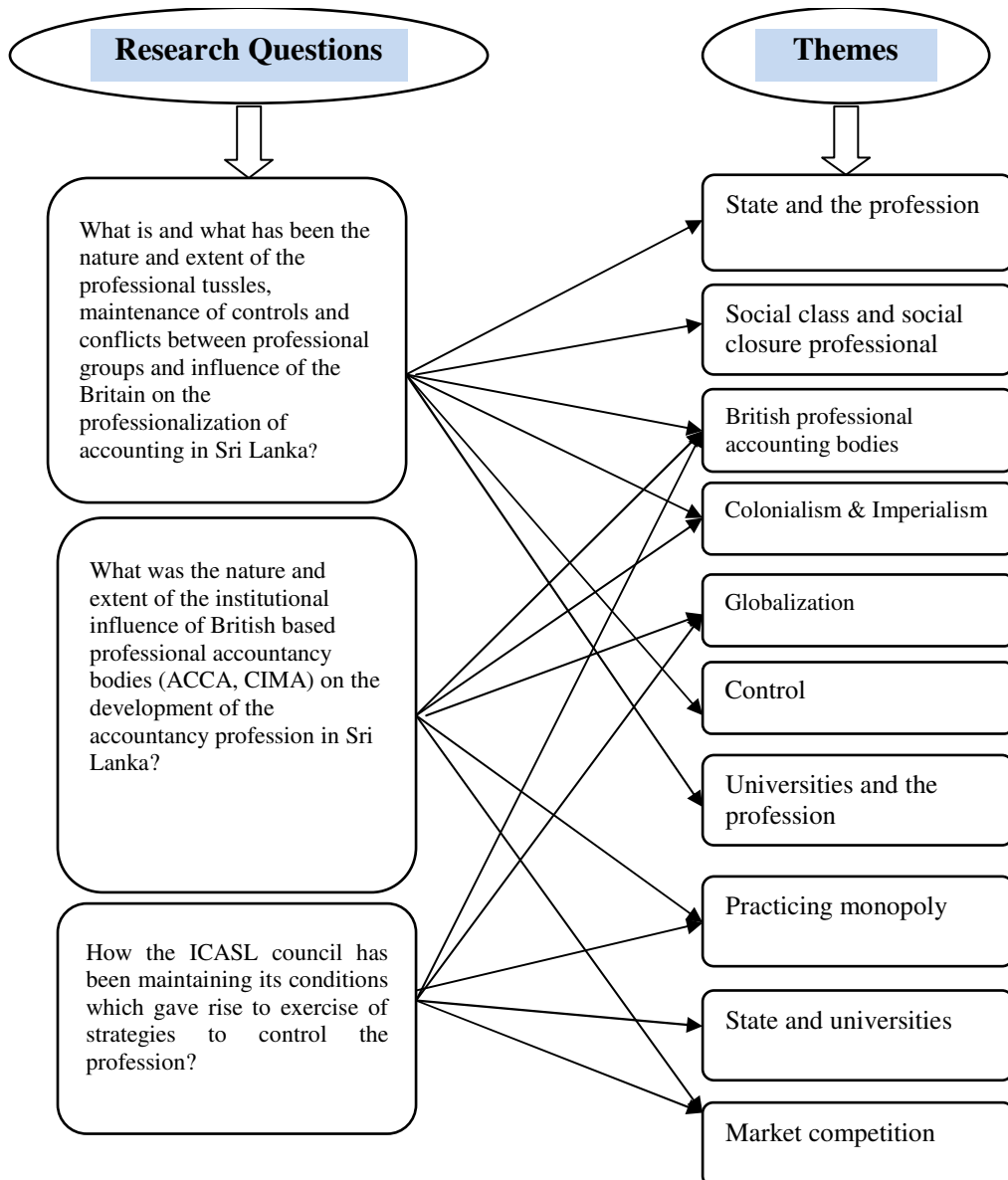
Once the interviews in this study had been transcribed, all interviewees were numbered for coding purposes. Analysis of the data revealed 10 emerging themes linked to the research questions; these themes were grouped into concepts. Assessing these concepts in relation to extant theories and research questions, the following schedule was prepared:

**Table 4.5 Main themes of interview data**

	<b>Themes</b>		<b>Themes</b>
1	State and the profession	6	Control
2	Social class and social closure professional conflicts	7	Universities and the profession
3	Colonialism & Imperialism	8	Practicing monopoly
4	British professional accounting bodies	9	State and universities
5	Globalization	10	Market competition

Figure 4.1 depicts the relationship of the research questions and 10 themes identified from the interview process.

**Figure 4.1-Relationship of the research questions and themes**



Source: developed for the study

## Coding

After all the qualitative data is collected, a researcher needs to code the data systematically. This means the researcher has to organize the raw data into conceptual categories and create themes (Neuman, 2003):

Coding data is the hard work of reducing mountains of raw data into manageable piles. In addition to making large mass of data manageable, coding allows a researcher to quickly retrieve relevant part of it (Neuman, 2003: 442).



According to Basit (2003) coding and analysis are not synonymous; through coding is a crucial aspect of analysis (Basit, 2003: 145) and he further argues that the coding is not happening at the analysis of the project rather it is an ongoing activity of a project since the beginning of the data collection for instance it assists ‘what codes, categories or themes could be used to explain the phenomena’ (Basit, 2003: 145). According to Miles and Huberman (1994) two methods can be identified for coding. ‘The first one is used by an inductive researcher, who may not want to pre-code any datum until s/he has collected it, which can be identified as grounded approach. The other method is creating a start list prior to the fieldwork; the list is generated based on the research questions of the study (Miles and Huberman, 1994).

It is important to select an appropriate method of coding. There are three different coding systems available: Open Coding, Axial Coding and Selective Coding. This study uses Axial Coding in order to analyse the data. Each of these coding systems has its own particular features. If Open Coding is selected, a researcher focuses on the actual data and assigns code labels for themes. However, the Open Coding method is not concerned about making connections among themes or elaborating the concepts that the themes present. In contrast, in Axial Coding the researcher begins with an organised set of initial codes or primary concepts. In this way the researcher focuses on the initial themes more than on the data and then the researcher can develop sub-themes depending on the information emerging from the interview transcription. Selective Coding comes into operation after the core variables have been found; the core variables are the researcher’s main concern. This coding system has been generated from theoretical sampling – a deductive part of Grounded theory – and is not concerned with data accuracy. Therefore this system is suitable for old field notes or memos which have already been coded at an earlier stage. After careful consideration of these three systems the Axial Coding system was selected as the most suitable system to code the data set in the present study (Neuman, 2003: 441).

The third step in the coding process involves identifying main themes; ten themes have been identified. As indicated in the conceptualization section, these themes were coded in a systematic way. For example, the first theme was coded as “State and the profession – [101], followed by Social class and social closure professional conflicts” - [102].

The fourth step was sorting particular pieces of text and associated ideas. During this step the researcher scrutinised all 25 interview transcripts and highlighted the main issues that interviewees raised in each interview in response to the questions. Those issues were identified as sub-themes and were also given sub-codes under the main codes. For example, following the first main theme (101), one of the sub-themes was identified as “ICASL has neglected the state sector accounting requirement”. This sub-theme was coded as -101.1”, similarly other sub-themes were identified and coded.

The fifth step was making notes on emerging patterns, relationships and recurring themes that were found, and proposing tentative logical reasoning behind these patterns. For example, based on interviewee comments, a negative relationship between the state and the profession was found. The ICASL was given its practising authority by the Parliament Act, so it had autonomy, and it was revealed from some of the interviewees that the profession has neglected state sector accounting requirements.

The interviewee’s number is listed against his/her comments in a separate column in front of sub-codes. This enables identification of the source of the interview evidence. For example, many interviewee comments suggested that the ICASL had maintained high entry restrictions – closure. Under the coding system, this comment was grouped under the main theme of “social closure” (code 102), with one of the sub-codes being “High Failure Rate” (sub code 102.4).

The final step was to collect empirical material by repeating these steps. For example, if there was a need to clarify and unearth more information about one sub-theme, the researcher would return to the respective interviewee via codes and the transcript and extract more information.

### **Data triangulation**

Data triangulation is a popular technique in qualitative studies to provide confluence of evidence that creates credibility (Eisner, 1991:110). Denzin has described this as ‘the combination of methodologies in the study of the same phenomenon’ (Denzin, 1970: 291).

The qualitative research in general draws upon multiple (at least two) sources of evidence; that is, to seek convergence and corroboration through the use of different data sources and methods (Bowen, 2009:28).

This study uses triangulation to validate data generated from various sources, a methodological technique popularised by Campbell and Fiske (1959) and frequently used in contextual accounting research (Walker and Shackleton, 1995). Convergence of methods may “enhance our belief that the result is valid and not methodological artefact” (Bouchard 1976:268, cited in Jick 1979:602). In this study, the triangularly approach involves the use of three sources of data as follows:

1. Interviews with the ICASL members and accounting academics in Sri Lanka.
2. Secondary sources such as annual reports, scholarly and practitioner journal articles, websites, legal records, books and Acts of Parliament.
3. Archival records such as newspapers and Hansard reports & historical records (such as council minutes, special government committee reports) from the Department of National Archives on the formation of the ICASL.

These three sources enabled the researcher to validate and ensure accuracy of data collected for this research. The purpose of triangulation is to avoid the criticism that a study’s findings are simply an artefact of a single method. Moreover, it can minimise single investigator bias (Bowen, 2009: 28).

A draft of the transcribed report of interview discussions was personally handed over to interviewees who took part in interviews with a request for them to indicate if they had concerns about any of the report’s contents or sensitivities. None of the participants suggested any major revisions to the content of the report, which implies that the interview data was properly interpreted.

## 4.8 Summary

Chapter 3 is devoted to the development of an appropriate methodology for the study. Thus, it considers extant social theories in laying a sound theoretical foundation for the construction of the methodology. The value of a theory and its necessity for conducting promising research and also its independent relationship with data is critical when conducting social research.

The framework for the study covering fifty years of the accounting professionalization process in Sri Lanka is located within the context of the sociology of professions. This allows the process to be studied in the context of various interactions between occupational association (i.e. ICASL) and other social institutions, in relation to a particular set of conditions. As we have seen, several relevant theoretical insights from the literature on the sociology of professions have been incorporated into the framework; this has been done purposely in order to consider critical events in the history of the professionalization process in Sri Lanka.

In this chapter we considered Laughlin's and Llewelyn's work in developing the methodology for this study. Laughlin's middle-range thinking approach provides a skeletal structure of theory, methodology and change, and identifies the best possible way to conduct empirical research in accounting. Llewelyn's five levels of theoretical approaches clarify the relationship between data gathering and collection. This explanation is helpful in deciding what type of theorization is relevant to social science studies. The third level of Llewelyn's model is identified as "conceptual framing" which develops links with agency and structure through practice. These approaches are said to be more suitable for qualitative empirical research in accounting.

The main data collection methods for this study are interviews, archival records and secondary data. Oral history interviews played a vital role in identifying important events occurring in the ICASL during the past 5 decades. The data analysis was done manually by the researcher himself, by reading the interview transcripts and coding them according to interviewee responses and discourses. Most of these responses and discourses were very useful in identifying various incidents of the professionalization process of

accountancy in Sri Lanka. Where possible, triangulation was employed to validate the interview responses with secondary and archival data.

It is important to explore the context of the country before beginning the analysis of data. In the next chapter the political and economic settings within Sri Lanka during post-independence are discussed.

## **Chapter 5: Post independence political and economic setting, the regulatory framework & British influence on accounting profession**

### **5.1 Introduction**

The previous chapter explained and justified the methodology and methods applied in this thesis. Since this thesis focuses on the accounting professionalization process in Sri Lanka, this chapter aims to discuss the major events and changes pertaining to political and economic settings during the last 5 decades, and the formulation of the regulatory framework and its implications to the development of the accounting profession in the Sri Lankan context. Accounting is a product of its economic and political environment. Therefore, to place the analysis of the development of the accounting profession in the proper context, this chapter begins with an overview of the country's economic and political environment. Sri Lanka inherited its accounting system and practice from the British during its colonial period and continued to follow the same system even after gaining independence. Thus, the major part of the chapter is devoted to an analysis of the evolution of economic and political reforms and how such reforms impacted on the regulatory framework and the accounting profession in Sri Lanka during post-independence up to 2010.

This chapter is organized as follows: Section 4.2 provides an overview of Sri Lanka. Section 4.3 provides the political settings of the country. This section pays special attention to political settings during post-independence. Section 4.4 provides nationalistic economic policies and their impact to the economy. Section 4.5 explains the economic liberalization policy implementations and its impact on the economy in general. Section 4.6 explains the accounting regulatory framework and the capital market development during the post-independence regime and up to 2010. Section 4.7 discusses and provides evidence of the accounting profession before the establishment of the Ceylon Accountancy Board (CAB). Section 4.8 discusses the formation of the first accounting body, the CAB, in Sri Lanka under colonial conquest. This chapter then provides evidence, through section 4.9, to explain the recommendation of the De Silva commission. Section 4.10 provides information on how British accounting education was involved with the island, together with professional accounting and practices before the

establishment of the national accounting body – after 11 years of independence. Section 4.11 provides the summary of the chapter.

## **5.2 An overview of Sri Lanka**

Sri Lanka (Figure 5.1) is an island nation located about 35 miles off the southern tip of India. The actual origins of the Sinhalese (dominant ethnic group of Sri Lanka) are shrouded in myth. Most believe they came to Sri Lanka from northern India during the 6<sup>th</sup> century BC. Buddhism (major religion in Sri Lanka) arrived from the subcontinent 300 years later and spread rapidly. Buddhism together with a sophisticated system of irrigation became the pillars of classical Sinhalese civilization (200 BC-1200 AD), which flourished in the north-central part of the island. Invasions from southern India, combined with internecine strife, pushed Sinhalese kingdoms southward. The island's contact with the outside world began early. Roman sailors called the island Taprobane. Arab traders knew it as "Serendib", the root of the word "serendipity". Beginning in 1505, Portuguese traders, in search of cinnamon and other spices, seized the island's coastal areas and spread Catholicism. The Dutch supplanted the Portuguese in 1658. Although the British ejected the Dutch in 1796, Dutch law remains an important part of Sri Lankan jurisprudence. In 1815, the British defeated the King of Kandy (Central capital of Sri Lanka), last of the native rulers, and created the Crown Colony of Ceylon. They established a plantation economy based on tea, rubber and coconut. During the colonial period, business activity in Sri Lanka was directed towards the plantation sector introduced to the country by the British (Ramanathan, 1952). In 1931, the British granted Ceylon limited self-rule and a universal franchise. Ceylon gained independence on February 4, 1948 (De Silva, 1992).

Sri Lanka's culture has evolved separately from its northern neighbour, although there are some similarities due to periodic migrations of people from India to Sri Lanka. The Sinhalese comprise the dominant ethnic group of Sri Lanka, and comprise about 74 percent of the population. Their ancestors first came to the island led by Vijaya, the legendary founding father of the Sinhalese, during the 5<sup>th</sup> century B.C.E., supplanting the indigenous Vedda population<sup>23</sup>. The next largest ethnic group is the Tamils, at about 12.6

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<sup>23</sup> The indigenous people of Sri Lanka, the Vedda, have been recorded in the ancient palm leaf chronicle *Mahavamsa*. The term Vedda (or hunter) is a name given in the Sinhala language, while 'Vaden' is the

percent of the population. The Moors and Malays, all Muslim, make up a total of 7.4 percent of the population. The remaining 0.3 percent of the population is the Burghers, people of mixed Sri Lankan and European descent. The Sinhalese are almost entirely Buddhist, and the Tamils are primarily Hindu, although there is a sizable Christian population of both Sinhalese and Tamils dating back to the Portuguese colonization of the island in the early 1500s. In spite of the desires of the dominant culture of the Sinhalese Buddhists, only 69.3 percent of Sri Lanka is Buddhist, and 15.5 percent is Hindu. The Muslim and Christian population are both about 7.5 percent (Peiris, 1992).

The caste system added a different type of intra-group cultural rivalry (Jeffery, 2007; Silva, 1999) and is prevalent mainly between the Sinhalese and Tamils. The Sinhala caste system emanating from traditional society stratifies the society based on profession (see Chapter 2). Although the Sinhala and Tamil caste system and its interpretations are different, the nature of discrimination practised within the caste system of each culture can be argued to have some commonalities. For example, high-caste people who hold higher positions in society or in organizations, discriminate against lower-caste people when they appoint or recruit candidates for a job, both in Sinhala and Tamil communities. However, caste discrimination is not seen as a critical social problem in Sri Lanka as it is in neighbouring India (Jeffrey, 2007; Silva, 1999). This may be attributed to the influence of Buddhism that rejects discrimination based on caste. Yet, social class as a social stratification (and status) parameter is a well-established social institution in the minds of the people (Chandraprema, 1989; Silva, 1999). As discussed in Chapter 5, this view of social class and status created an environment in which to maintain such attitudes in the accountancy profession in Sri Lanka.

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name given in Tamil. The Vedda people refer to themselves as vanniyaatto (forest or nature dwellers), and still live in Sri Lanka.



**Figure 5.1.-Map of Sri Lanka**



### 5.3 Political settings in Sri Lanka

The Portuguese were the first western colonizers, (1505-1658) to hold power in Sri Lanka. A large number of people in the coastal areas were converted to Roman Catholicism, and quite a few of those families still remain Roman Catholic. The Sri Lankan style of both dress and architecture were influenced, as well as language. Portuguese was spoken until as late as the 19<sup>th</sup> century, and many words in Sinhalese are

derived from the Portuguese, as are some family names. The Dutch, who arrived in the early 17<sup>th</sup> century, had a much smaller influence on Sri Lankan culture (De Silva, 1992).

Dutch trading ships arrived to waters around Sri Lanka in the 1590s, just as the Portuguese had finally established power over Kotte (Capital of Sri Lanka at that time). Sri Lankans were not willing to be passively ruled by the Portuguese, and in 1638 Kandy signed a treaty with the Dutch to aid in the removal of the Portuguese. The Dutch acted almost immediately and overthrew the Portuguese by 1640. Instead of leaving as the treaty stipulated, the Dutch held the ports of Galle and Negombo in order to gain control of the cinnamon trade (De Silva, 1992).

The Dutch were not interested in controlling the entire island, nor were they interested in taking over the Kandyan Kingdom as the Portuguese had been, but instead were interested in the exportation of spices. To achieve this goal they negotiated with Kandy for rights to the cinnamon in forests in the hill country. They were disinterested in political control because of an awareness of the growing strength of the English and the French. Dutch power was stretched thin over Asia, and they did not want to risk their position in Asia just to obtain rule over Kandy (De Silva, 1981; Peris, 1992; Seneviratne and Siriweera, 1992).

In spite of limited political control, the Dutch did not strongly influence the culture of Sri Lanka. They encouraged conversion to Protestantism from both Roman Catholicism and the traditional religions of the island, and many in the low country converted to obtain Dutch favour. They encouraged the registration of births and marriages by making all claims to property based on legal and registered lineage. Consequently, their influence on the legal systems was also large, as was the introduction of the concept of upward mobility, especially in relation to education being a social necessity; this concept of social mobility was continued by the British (De Silva, 1992). The British influence on the accounting education will be discussed in detail in Chapter 6 of this thesis.

During Dutch rule the English East India Company was allowed to trade in Sri Lankan ports. The transfer of Dutch power to British power in Sri Lanka was due to a peace treaty of 1801 between the Dutch and British, in which it was agreed that the British would take control of Dutch territories. By 1796, in fact, the British had established commercial control of Sri Lanka. Since the early 1760s they had been sending spy

missions to Kandy (Capital of Sri Lanka at that time and the Sinhalese King ruled this capital), and attempting to establish commercial relations up until the 1780s (De Silva 1992). When they established official political control of Sri Lanka in 1801 the British attempted to control the coast and land lock Kandy. After numerous invasions, and battles between Kandy and the British, a treaty was signed in 1815 at the Kandyan Convention, although there were a few rebellions after this, the largest being from 1817-1818. The British controlled the entire island for another 133 years, and greatly influenced the social and economic aspects of Sri Lanka (Seneviratne and Siriweera, 1992).

The Sri Lankan political independence movement was a peaceful movement which aimed at achieving independence and self-rule for Ceylon from the British Empire. It was initiated around the turn of the 20<sup>th</sup> century lead mostly by the educated middle class, and ultimately was successful when on February 4, 1948, Ceylon was granted independence as the Dominion of Ceylon. Dominion status within the British Commonwealth was retained for the next 24 years (Seneviratne and Siriweera, 1992). Dominion status was given on 4 February 1948 with military treaties with Britain, as the upper ranks of the armed forces were initially British and British air and sea bases remaining intact. This was later raised to independence itself and D.S Senanayake<sup>24</sup> became the first Prime Minister of Sri Lanka. While he was in office, several economic development plans were mooted for implementation; among them was the setting up of a professional body in accounting, which had become prominent during this period (House of Representatives – ICAC Bill, 1959). After Senanayake's untimely death in 1952 the position was given to his son Dudley Senanayake, the then minister of Agriculture. In 1953 he resigned following a massive Hartal (general strike) by the left wing political parties against the UNP. He was followed by John Kotelawala, a senior politician and an uncle of Dudley Senanayake. Kotelawala did not have the enormous personal prestige or the adroit political acumen of D. S. Senanayake. He brought to the fore the issue of national

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<sup>24</sup> D.S Senanayake played an active role in the independence movement. In 1931 he became the Minister of Agriculture and Lands in the state council. His policy earned him respect, and he continued to be a minister for fifteen years. However, he resigned in 1946 from his cabinet post to fight for Ceylon's independence. That same year he founded the [United National Party](#) (UNP) by amalgamating three right-leaning pro-dominion parties, which is still one of the main political parties. In only a year he succeeded, and was elected as Ceylon's first Prime Minister in the general election held in 1947.

languages that D. S. Senanayake had adroitly kept on the back burner, antagonising the Tamils and the Sinhalese by creating conflicting policies with regard to the status of Sinhala and Tamil as official languages. The next section explains the nationalistic economic policies followed by Sri Lanka post-independence.

## **5.4 Nationalistic economic policies in Sri Lanka**

It is a widely known fact that Sri Lanka, as a British colony, had been controlled by the British state-appointed authorities while providing opportunities to the private sector to operate businesses under free market conditions. Thus, the economy was controlled by officials ranging from higher government officials to petty state functionaries, indigenous business elites and a hierarchy of professionals; the traditional structure of the society is deeply embedded and perpetuated (Hettige, 1995). The colonial inheritance included a high human development standard, well-developed infrastructure, well-functioning judiciary and a democratic political system of the Westminster type (Abeyratne, 2000).

### **Post-independence period 1948-1956**

Soon after independence it was an indigenous elite dominated economy which continued until the mid-1950s. During post-independence frequent political changes, including an assassination of a leader of a major political party, contributed to the slow economic growth in Sri Lanka. Two major political parties, i.e. the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP) played a dominant role in the shifting of power to eventuate reforms in the economic policy regimes in the country. The first government of independent Sri Lanka was formed by D.S. Senanayake of the UNP. The UNP is a centre-right political party primarily with an ideological position based on a *laissez-faire* doctrine with added principles of social democracy to its *laissez-faire* thinking of governance (Abeyratne, 2000). From 1947 to 1956 the country was under the UNP government and it maintained an open-market policy (Abeyratne, 2000). The government maintained close links with the UK even after the independence, through agreements on defence, external affairs and membership of the Commonwealth. These agreements with Britain were expected to safeguard the security and sovereignty of the country. The nationalist government took several challenging initiatives under the concepts of nation

building and promoting economic development. In order to support these projects a consultation mission was appointed by the World Bank in the early 1950s. The Central Bank of Sri Lanka was established in 1950 by replacing the Currency Board System, to implement an independent and flexible monetary policy.

The newly appointed government, realizing the importance of professional development among citizens, appointed a few important commissions to investigate and report on the higher and professional education and training. For example, in 1949 a Special Committee was appointed to investigate the structure of the Accountants' Services in the country (Sessional Paper XVI -1949). In 1950 another commission was appointed to report the common issues of commercial law, banking insurance services and accountants and auditors; that commission is known as the 'Commission on Company Law, Banking, Insurance, and Accountants and Auditors'. Privy Counsellor, Mr. L.M.D De Silva, was appointed as the chair person for this commission and H.M.G. Fernando and K. Sathithananda as members of the commission. A more detailed discussion on this commission will be provided in Chapter 5 of this thesis.

While the political arena was moving with centre-right political ideology, in 1953 SLFP, the only alternative to the UNP was set up as a centre-left party with a socialist ideology of economic orientation. These two political parties which came into power from time to time during post-independence had to maintain the balance between their short-term political manifestos and the country's long-term development priorities. Yet, mainly due to the ideological discrepancies between SLFP and UNP, changes in governments between the two parties following regular general elections have produced parallel shifts in country's development policy (Abeyratne, 2000).

### **Six year development plan of the UNP government**

The two economic development programs were prepared between 1951 and 1959 – the Six Year Development Plan (1951-1957) and the Six Year Investment Program (1954-1959) – placing major emphasis on investment in agricultural infrastructure. The private sector was expected to play a leading role in the development process (Central Bank, 1998).

The World Bank mission appointed in 1950 submitted its report in September 1952, among other things, recommending promoting small and medium scale industries in Sri Lanka. The Government appointed another important commission by the name of 'Commission of Government Industrial Undertakings', in 1953. This commission's recommendation managed to convince the government policy makers to convert government factories into state corporations. As a result, the government passed a law on this in 1955, by the name of Government Sponsored Corporations Act No. 19 of 1955. In the same year (1955), according to the national development agenda, in accordance with World Bank recommendations (1952), the government took initiatives to set up the Ceylon Institute of Scientific and Industrial Research (CISIR) to provide assistance to the industrial sector. In the very same year the Development and Finance Corporation of Ceylon was set up to provide financial assistance to private sector investors (Central Bank of Sri Lanka, 1998). These developments eventually created an environment for accounting and financial management functions (occupations/professions) in the country.

### **Post-independence period 1956-1965**

As a result of political freedom the fourth election since independence was held in 1956 and the SLFP won the election and S.W.R.D. Bandaranayke became the prime minister of Sri Lanka. The left leaders within the government were assigned important cabinet portfolios. The Government took steps to expand the role of the public sector in the economy. An initiative was taken to introduce state-led industrial development with the introduction of the State Industrial Corporations Act of 1957. Thus, the year 1957 is identified as a remarkable and ground breaking year for the Sri Lankan political and economic policy formulation arena. In 1957, the Government Sponsored Corporation Act was amended through the State Industrial Act No. 48 of 1957, which empowered the government to set up and carry out any industrial undertakings. With this enactment, the government formed State Owned Enterprises (SOEs) coupled with the nationalisation of existing private owned companies; for example in 1958 the government nationalised bus transport (creating the Ceylon Transport Board). The Colombo Port was also nationalised in the same year. While these developments were taking place, a Ten Year Plan (1959-1968) was prepared by the government for industrial development (National Planning Council, 1959: 55).

In order to support the emerging accounting manpower needs of the new industrial sector, the government passed the Institute of Chartered Accountants of Ceylon (ICAC) 1959, by Act of Parliament. This Act gave power to the ICAC to act as an independent, autonomous body and to address the national accounting needs of the country. The objectives and the programs offered by the ICAC were similar to the Institute of Chartered Accountants in England and Wales (ICAEW) in the UK. This will be elaborated on in Chapter 5. In 1961, the local subsidiaries of the foreign-owned petroleum companies (such as Caltex and Shell who had formed a cartel) were nationalised. Insurance companies and the Bank of Ceylon were also nationalised in the same year (Perera, 1975, Central Bank of Ceylon, 1998; Yapa, 2006).

The nationalisation policy of the government led to the creation of many SOEs up until about the mid-1970s. During this time the government realized the necessity of an efficient financial management system to manage and control not only these SOEs, but also to establish a national accounting body to address the accounting issues nationwide. As mentioned earlier, the government appointed commissions to investigate and recommend development projects, including the Sri Lankan accounting profession.

In the early 1960s another few state sponsored commissions were appointed to investigate the current requirements for education, including accounting education in the country. For example, the National Education Commission (hereafter NEC) was appointed in 1961 to investigate the educational issues of the country and in 1963 the Commission of Inquiry on Technical Education (hereafter CITE) was appointed under the commissions inquiry Act No. 17 of 1948, for comprehensive review and to identify the facilities that are needed for both public and private sector organizations of the country. A detailed discussion on these commissions is provided in Chapter 5 and 6.

The pressure emanating from democratic political organizations that evolved towards the end of the colonial rule, under the influence of egalitarian and anti-imperialist ideologies, continued to put further pressure on post-independence regimes until 1965 (Kelegama and Wignaraja, 1995; Satharasinghe, 1995).

### **Post-independence period 1965-1970**

The UNP government that came to power in 1965 (1965-1970) produced certain notable changes in the economic policies. Special emphasis was given to industrial development in the Ten Year Plan (1959-1968) by allocating 20 percent of the total planned investments for industrial development (National Planning Council, 1959: 55). In 1965 the Bureau of Standards was set up by the Ministry of Industries to uplift the domestic industrial production quality. To boost the foreign investment, the government passed a White Paper in 1966, and as highlighted in the paper, attempts were made to attract foreign direct investment into Sri Lanka with a view of enhancing the technological and managerial capabilities of local industry. In May 1969, the Industrial Development Board was set up for the provision of industrial service facilities to local companies. However, these policy directions did not continue for long. In summary, for about two decades after the general elections in 1956, four governments of party coalitions headed by either the SLFP (1956-59, 1960-65 and 1970-77) or the UNP (1965-70) ruled the country with different political ideologies.

### **Post-independence period 1970-1977**

The SLFP with their socialist leanings came into office again in 1970 (1970-77), and made significant changes in economic and social policy. One such change was to shift the allocation of resources between industry and other sectors (Lakshman et al., 1991, Hettige, 1995; Yapa, 2006). According to the Central Bank report (1998), the industrial policy relied heavily on state sector led development. Arguably, political change gave rise to nation building and a new form of society. In 1972, the government introduced a new constitution, which changed the country's name from Ceylon to Sri Lanka, and declared it the Democratic Socialist Republic of Sri Lanka. Its economic policies during this period were highly socialist and included the nationalisation of large tea and rubber plantations and other businesses that were introduced by the British. Following is an important indication to show the state's socialist thinking towards the ICASL in mid 1970s:

During the socialist political party in power (1970-77) the ICASL had six appointed members on the council and they pursued their own socialist interests. After Dr. N M Perera was appointed as Minister of Finance (M/F) in July 1970 the socialist council



members moved to regulate the profession to make it more open for registration of students. In 1974 a proposal to put CAs into a strait jacket surfaced. It opened up many young people to think about the profession (ICASL - President – Wickramanayake, *The Accountant*, 1976).

### **The democratic socialist republic of Sri Lanka**

Sri Lanka was already engulfed in a serious political crisis in the early 1970s owing to a significant anti-systematic threat posed by a political movement mostly involving educated unemployed or under employed rural youths; their anger was directed almost exclusively at the political establishment. Frustrated educated youths who were mostly from underprivileged backgrounds organised a rebellious group that acted violently against the ruling party. Those youths who were the followers of the Maoist, "Janatha Vimukthi Peramuna" (JVP or "People's Liberation Front"), broke out. However, the government suppressed the revolt and declared a state of emergency that lasted six years. Insurrection was unsuccessful, and cost many lives of youths of the country in 1971. That was an unpleasant and unfortunate event which took place after political independence (Manoharan, 1974; Lakshman *et al.*, 1991; Hettige, 1995; Yapa, 2006).

As a result the government introduced a policy of "state-owned enterprises - (SOEs)"; for instance in 1974, there were 120 state-owned corporations in Sri Lanka, of which 85 were commercial corporations while the rest were non-commercial institutions such as social, cultural, educational, research and consultative organizations. These state enterprise concepts created manpower requirements for all sectors, including professionally qualified accountants and auditors to manage the finances of those enterprises. However, the existing accounting qualifications and training arrangements provided by the ICAC for accountants were inadequate to meet the state's accounting manpower requirement (Manpower Planning Review Report, 1980). As a result of these political and economic reforms, a situation was created for the imposition of strong accountability and good governance to the general public by the Auditor General (Hettige, 1995; Central Bank, 1998; Yapa, 2006).

Thus, it was a necessity of the state to take suitable steps towards meeting the new social, economic and employment, and accountability needs of society. As a result of the state

pressure for professionally qualified accountants, a special committee was appointed by the Council of the ICAC (ICASL)<sup>25</sup> in 1972 under the title “Future Training of Accountants” (FTA) to bring about a major revision of the training scheme of the ICASL. The FTA recommendations were initiated by the ICASL in 1976, which opened the door to many prospective students who wished to become chartered accountants in the country. A detailed discussion on the FTA recommendations and aftermath will be provided in Chapter 5.

State intervention became really important to the accounting profession in Sri Lanka. After the establishment of the ICASL in 1959, by the Act of Parliament, the Act gave power to the body to act independently and autonomously, and address the national accounting needs. However, after more than a decade of its operation, it was revealed that the body neglected the national agenda by maintaining a restricted atmosphere for some of the sections of the society to enter into the profession through various barriers. Thus, the state appointed committees (Special Committee, 1949, De Silva Commission, 1950 and NEC, 1961) to investigate the situation and to make appropriate recommendations. A detailed discussion of state intervention and its impacts are discussed in Chapter 5.

By and large, this state dominant economy created enormous social unrest among the Sri Lankan general public whom voted against the ruling party at the general election in 1977. The ruling party was defeated by the general public and the UNP came into power with 2/3 majority vote in the Parliament. This government introduced open economic policies and trade liberalization; the task of the following section is to explain this.

## **5.5 Economic liberalization after 1978**

The newly elected government in 1977, the UNP (centre-right political party primarily with an ideological position based on a *laissez-faire* doctrine), quickly introduced radical policy reforms towards a liberalized and export-oriented trade regime and management concepts which made the economy more market-oriented and open. The UNP government continued in power until 1993. One of the main objectives of the

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<sup>25</sup> Country’s name was changed to Sri Lanka in 1972 and the ICAC was also changed as ICASL

liberalization of the economy was to encourage private investment in order to create employment and income opportunities for unemployed youth. Among other objectives, liberalization of foreign trade and the relaxation of exchange control regulations were considered important since this allowed goods and services to freely flow into the country. So, economic liberalization policies were expected to encourage private investment, both local and foreign and facilitate the privatization of public enterprises, which means 'Open Avenue'; this expands the business operation within the framework of profit motive while maintaining Corporate Social Responsibility (CSR). The ultimate objective was to promote economic growth which would eventually lead to higher levels of employment and a substantial reduction of poverty. In other words, economic liberalization was perceived as the means by which key economic and social goals were to be achieved (Kelegama and Tiruchlvam, 1995; Lakshman, 1986).

However, there were many criticisms from the leftist and nationalist people on the liberalization of economic policies. Anti-liberalist claims have been summarised by the Hettige (1995):

... open economic policy have condemned in latter stage as a sure way to ensure the exploitation of the country by capitalist West, for its proponents and apologist, it appeared as the only way out of economic stagnation that is at the root of widespread unemployment and almost generalized poverty in the country (Hettige, 1995:96).

This statement has become fairly true when compared with the present neo-liberal development dogma which has become the major influence in many countries in the non-Western world. To this end several studies have been conducted in the non-Western world and those studies examined the outcome of the liberal economic strategies (Kelegama and Tiruchlvam, 1995; Lakshman, 1986; Herring, 1994; Shastri, 1994; Vidanapathirana, 1988).

## **5.6 Capital market regulations and the accounting regulatory framework**

The limited liability company formation and share trading in Sri Lanka commenced in the 19<sup>th</sup> century when British planters needed funds to set up tea plantations in Sri Lanka. The Colombo Share Brokers Association commenced trading of shares of limited liability companies in 1896, and this trading tradition involved in setting up of Colombo

Brokers Association in the country. According to De Silva (1983), the British capital in Sri Lanka was identified under two main categories: Productive Capital and Mercantile capital. Productive capital refers to the direct investment in plantations provided by the scattered mass of absentee stockholders of British plantation companies, these companies were commonly known as ‘sterling companies’. Mercantile capital included surpluses of business activities of the various fees and commissions on sales’ proceeds and margins of various services such as insurance and freight that they provided for the plantation companies. The agency house system was the operational mode of the mercantile capital in the plantation economy. The ownership of the agency house system was in the hands of the British investors and executives (Wickramasinghe and Cameron, 2004; Government of Sri Lanka 1974).

Until Sri Lanka gained its independence in 1948, the capital market in Sri Lanka was called the Colombo Brokers’ Association. The market had only five companies (Somerville and Co, Bartlet Co, Forbes & Walkers Co, George Sturt Co, John Keels & Co), and all five were owned by the British. Thus, business activities of the colonial economy were totally focused on the export of tea, rubber and coconut (coconut plantations)<sup>26</sup>. It was evident that some mercantile firms of British business models (for instance, sole-proprietorship, partnerships and limited liability companies) had operated in the country. Even after political independence, the business sector in Sri Lanka was mainly driven by British interests and British-owned sterling companies. Some of the well-known names of the leading British business companies at that time were Walkers, Lipton’s, Browns, Heylies, Mackey’s, Cargill’s, Millers, Collette’s and Freudenberg. These companies dominated the export and import trade in the country. The financial statements of these companies were published primarily in Britain in order to comply with British company legislation (Yapa, 1998, 1999; Perera, 1975).

Even though the capital market is more than 100 years old, interview evidence suggests that the capital market is yet to develop to a fully efficient market such as in Singapore or any other developed country.

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<sup>26</sup> The coffee plantation was introduced to Sri Lanka by the British in the early stages as a commercial plantation and as a result of the coffee pest the British then introduced tea, rubber and coconut to generate revenue for the British Empire.

### *Securities Exchange Commission (SEC)*

The Colombo Share Market continued operations for almost a century, experiencing several changes due to political and economic factors during the period. A landmark event in the history of share trading in Sri Lanka was the formalization of the market with the establishment of the "Colombo Securities Exchange (GTE) Limited" in 1985, which took over the operations of the stock market from the Colombo Share Brokers Association.

However, the Colombo Securities Exchange operated in the market with no regulatory authority to oversee its functions until 1987. To further avoid administrative deficiency and strengthen corporate governance, the Securities Exchange Commission was enacted by an Act of Parliament in 1987. It can be argued that the SEC played a major role in the development of the accounting profession through introduced rules and regulations for practice and reporting. The result was a transparent reporting system which was an incentive for capital expansion, encouraging foreign investors and joint ventures to enjoy the benefits of globalization. So, the SEC was established in pursuance of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009.

The Act itself explains the purpose of SEC establishment:

An Act to provide for the establishment of the securities and exchange commission of Sri Lanka for the purpose of regulating the securities market in Sri Lanka; to grant licences to stock exchanges, managing companies in respect of each unit trust, stock brokers and stock dealers who engage in the business of trading in securities; to register market intermediaries; to set up a compensation fund, and for matters connected therewith or incidental thereto (SEC, 2003).

After the enactment of the SEC it became the sole authorised body to monitor the operations of the Stock Exchange. Thus in Section 13 of the amended Act in 2003 established powers, duties and functions of the Commission are as follows:

- (a) To grant a licence to a body corporate to operate as a stock exchange and ensure the proper conduct of its business;

- (b) To grant a licence to any person to operate as a stock broker or a stock dealer, and ensure the proper conduct of their business;
  - (c) To grant a licence to a managing company to operate a unit trust and to ensure the proper conduct of the business of such a unit trust;
  - (d) To grant a certificate of registration to any person to carry on business as a market intermediary and to ensure the proper conduct of such business;
  - (e) From time to time to give general or specific directions to a licensed stock exchange, stock broker, stock dealer, managing company, or a trustee, unit trust or a registered market intermediary.
- (SEC, 2009: 5)

### ***Colombo Stock Exchange (CSE)***

The Colombo Stock Exchange (CSE) is a company limited by guarantee, established under the Companies Act No. 17 of 1982 and is licensed by the SEC. The CSE is a mutual exchange and has 15 full members and 13 trading members licensed to trade both equity and debt securities, while one member is licensed to trade in debt securities only. All members are licensed by the SEC to operate as stockbrokers and they are corporate entities; some are subsidiaries of large financial institutions.

The policy making body of the CSE is the Board of Directors composed of nine members. Five directors are elected by the 15 member firms while the Minister of Finance nominates four. The CSE Board has four sub-committees appointed to administer the operations of the CSE. The Exchange Secretariat, headed by the Chief Executive Officer, is responsible for the operations of the Exchange, and is accountable to the Board of Directors.

As it was explained, the SEC was established under the Securities Council Act No. 36 of 1987 (now amended to the Securities Council Act), to regulate the securities market in Sri Lanka, grant licenses to stock exchanges, stockbrokers, stock dealers and unit trusts who engage in the business of trading in securities. The CSE operates as a Self-Regulatory Organization (SRO) subject to the regulation and supervision of the SEC. Sri

Lanka was one of the first countries in South Asia to establish a capital markets regulator.

The CSE was one of the first exchanges in the region to successfully automate its clearing and settlement functions in 1991, with the installation of a Central Depository, an electronic clearing and settlement system for share transactions, and an Automated Trading System (ATS) in 1997. This notably enhanced the transparency and efficiency of the securities market in Sri Lanka. In recognition of the technology, systems and regulation, the CSE was admitted to the World Federation of Exchanges (WFE) in 1998, becoming the first South Asian member. It was also a founding member of the South Asian Federation of Exchanges (SAFE) in 2000.

At present the CSE offers advanced facilities for the secondary trading of equity and debt instruments. The Debt Securities Trading System (DEX) implemented in 2003 enables the secondary trading of the Beneficial Interest in Government Securities. The DEX provides investors with an opportunity to diversify their portfolio and thereby reduce risk. The Exchange calculates two main price indices, namely the All Share Price Index (ASPI) and the Milanka Price Index (MPI). Price indices are calculated for each of the 20 business sectors. Total Return Indices (TRI) is also calculated to track the market performance on a total returns basis. The TRI exceed the scope of the existing price indices (ASPI, MPI) and incorporate returns from dividends into its computation. The CSE publishes TRI based on the ASPI, MPI and the 20 Sector Price Indices. Two hundred and sixty six companies are currently (2010) listed on the CSE, representing 20 business sectors with a market capitalization of Rs. 1,380.19 billion (approx. USA \$ 12 billion) as at 31st May 2010.

The CSE provides companies with the opportunity to raise equity and debt capital required for their expansion through the primary and secondary markets, while providing a mechanism for price discovery in an active secondary market. The equity and debt securities of a public company can be listed on either the Main or Diri-Savi<sup>27</sup> Board of the CSE; a Main Board for larger companies and a Diri-Savi Board for medium to small and start-up companies.

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<sup>27</sup> A board appointed by the state to uplift the quality and give awareness of the open market operation to the small companies in Sri Lanka.

## **Regulatory authorities: accounting and auditing profession**

This section focuses on the legislation governing the public companies, securities market, banking sector, and auditing and accounting practices in Sri Lanka (see Figure 4.1). Post-independence, with increasing business activities in the country, the regulatory bodies emerged to maintain transparency and best practice of the business the development of regulatory authorities are shown in the Figure – 5.2. As discussed in earlier chapters with the objective of Companies Ordinance No. 51 of 1938 was to enact and consolidate the law relating to companies in Sri Lanka. This Act was in power until the enactment of the new companies Act No. 17 of 1982. This Act was revised and a new company Act No. 7 of 2007 was introduced.

The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 empowered the ICASL to adopt and publish Accounting Standards necessary for the purpose of maintaining uniform and high standards in the financial reporting of business entities. The Act allowed the setup of an Accounting Standards Committee (ASC), with half of its members representing different user groups of these standards. The ICASL issues Sri Lanka Accounting Standards (SLAS) requiring reporting entities to prepare and present their accounts in compliance with SLAS with the objective of presenting a ‘true and fair’ view of their financial performance and conditions. The Act places equal responsibility on both the management of the entity as well as its auditors, who have to specifically report on whether the entity has complied with SLAS, for ensuring compliance with the accounting standards. It is a unique feature that a professional body is statutorily empowered to promulgate Accounting Standards. The Council of the ICASL has attempted to narrow down the differences in financial reporting in terms of social, economic and legal circumstances and to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements in Sri Lanka. For example, the International Accounting Standards Board (IASB) has issued the International Accounting Standards (IAS) (now called International Financial Reporting Standards – IFRS) which was developed for listed companies. This has been adopted partially from 2005 in Sri Lanka and the full adoption is taking place in 2012.



The Sri Lanka Auditing Standards are based on the International Standards on Auditing (ISA) published by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC), with slight modifications to meet local conditions and needs. As a member of IFAC, ICASL is obliged to support the work of IFAC by informing its members of every pronouncement issued by IFAC. To work towards this implementation, ICASL has made every attempt to incorporate IFAC's ISAs into the Sri Lanka Auditing Standards (SLAuSs). Hence compliance with the Sri Lanka Auditing Standards ensures compliance in all material respects with the ISA. As required by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, these standards have been reviewed by the Statutory Auditing Standards Committee (SASC) set up under the Act and recommended for adoption by the Council of the ICASL. Accordingly, the Council adopted these standards as the Sri Lanka Auditing Standards (SLAuSs).

The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, empowers the ICASL to adopt and publish Auditing Standards. In terms of the provisions of this Act, the institute has been given sole authority to adopt the SLAuSs. The standards adopted by the institute under this Act are applicable to all business enterprises specified in the schedule of the Act.

The ASC and Auditing Standards Committee (AuSC) are now constituted in accordance with the provisions of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. This Act has also established a 'Board' known as the Sri Lanka Accounting and Auditing Standards Monitoring Board<sup>28</sup> (SLAASMB). The function of this board is mainly to monitor compliance with the Sri Lanka Accounting Standards and Sri Lanka Auditing Standards by Specified Business Entities (SBEs)<sup>29</sup>. Among the 13 members of the Board of SLAASMB, are the Registrar of Companies, the Commissioner General of Inland Revenue and the Director General of Securities and Exchange Commission of Sri Lanka (SLAAS Act, 1995).

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<sup>28</sup> SLAASMB was set up under the SLAAS Act, 1995, on the recommendation of the Committee on Financial Sector Reforms appointed by the Ministry of Finance after the East Asian financial crisis.

<sup>29</sup> All quoted companies, banks, leasing and finance companies, unit trusts with a turnover in excess of Rs. 500 million or gross assets worth over Rs. 300 million, or with liabilities in excess of Rs. 100 million, and public corporations and statutory boards that are engaged in the supply of goods and services are defined as SBEs.

**Figure 5.2 -Legislative and institutional frameworks for the accounting and auditing profession in Sri Lanka**

<b>Main Government Acts</b>	
<p>Companies Ordinance Act No. 51 of 1938          Institute of Chartered Accountants Act No. 26 of 1959          Public Finance Act No. 38 of 1971          Companies Act No. 17 of 1982          Securities Council Act No. 36 of 1987          Banking Act No. 30 of 1988          Finance Companies Act No. 30 of 1988          Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995          Companies Act No. 7 of 2007          Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009.</p>	
<b>Institutions and their main functions</b>	
<p><b>Institute of Chartered Accountants of Sri Lanka (ICASL)</b>          Qualify professional accountants          Approve accounting and auditing standards          Support the ASC and AuSC activities</p> <p><b>Accounting Standards Committee (ASC)</b>          Develops accounting standards</p> <p><b>Auditing Standards Committee (AuSC)</b>          Develops auditing standards</p> <p><b>Registrar of Companies</b>          Administers the Companies Act</p>	<p><b>Securities and Exchange Commission (SEC)</b>          Oversees the Colombo Stock Exchange          Administers the Securities Act</p> <p><b>Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)</b>          Monitors the application of accounting and auditing standards</p>
<b>Banking and financial service sector</b>	
<p>Sri Lanka Banking Act No. 30 of 1988, Banking (Amendment) Act No. 15 of 2006.</p>	

Source: Updated from Yapa & Perera, 2005

The regulatory framework (Figure - 5.2) is organised by the regulatory authorities to provide best practice to the community and to the local and international business to update professional requirements. This also indicates that a requirement of a well-established accounting profession in order to provide required manpower skills of accounting into the business environment.

## **5.7 Accounting profession before the establishment of Ceylon Accounting Board (CAB)**

Previous discussions on the political economic changes and the regulatory framework indicated that much of the developments that took place in Sri Lanka were inherited from British traditions. This section examines how the Sri Lankan accounting profession has been influenced by the British model of the accounting profession. It explains the setting up of the CAB with the assistance of Britain and the establishment of the ICASL in post-independent Sri Lanka.

Before the setting up of CAB in 1941, Sri Lankans who desired to become professional accountants prepared locally for British professional examinations, such as those of the ACCA and the ICMA; the latter was changed to the Chartered Institute of Management Accountants (CIMA). When Sri Lanka was a colony, it was not possible to get free access to education for an ordinary citizen, but local bourgeoisie could send their children to Britain for higher education. This fact is confirmed by an interviewee who went through the British examination system:

We were not allowed to develop as a nation - they only wanted labour intensive institutions - like [an] agricultural state. Then later they wanted some degree of administrative ability. So they permitted us to open [a] few schools. They (British) had the matriculates - the matriculate also from their country (Britain). So you study for their matriculation and servicing for them it was just a source of income... Until 1948 London Senior School was held locally. That was one method for foreign exchange inflow to Britain (Interview- 17).

The motive of the British was to provide some education to locals in order to get assistance for their normal administration processes. Locals who could afford a British education were able to obtain qualifications from the ICAEW. Most of these were the Colombo elite family<sup>30</sup> members who acquired jobs in British companies in Sri Lanka as soon as they returned to the country. Thus, British qualified accounting professionals did not have a problem finding employment opportunities within the colonial regime, but rather enjoyed the benefits of colonisation.

Another interviewee highlights this elite tradition:

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<sup>30</sup> A group or class of persons or a member of such a group or class, enjoying superior intellectual, social, or economic status of an economy.

Most of them—they were from the elite families in Colombo—they had the money and the abilities not only to pay for the studies but also to go abroad. But by and large other educated people of this country not so well off - who were unable to go and get those degrees, then the British themselves did not encourage local education because sending locals to Britain for higher education was also one of their source of incomes (foreign exchange inflow to UK) (Interviewee – 4).

Such a discriminative atmosphere for accounting education for locals contributed to a split relationship among the local society, for instance powerful bourgeoisie and ordinary citizens became two groups of people in the society; this was the beginning of a class system. In the late 1930s the colonial government wanted to introduce a proper system of accounting education locally as a legislative requirement, as well as for smooth operation of administrative and business functions of the colony. As a result the colonial government introduced the Ceylon Accountancy Board (CAB) to conduct examinations and training for local accountants. Those who qualified from the CAB were designated Registered Accountants (RAs). The CAB establishment is discussed in detail in the following section.

## **5.8 Establishment of the Ceylon Accountancy Board 1941**

After the enactment of the UK Companies Act of 1929, the colonial government changed company law in Sri Lanka and followed the British Act when they were enacting the Companies Ordinance No. 51, 1938 (Perera, 1975). The enactment of the Companies Ordinance of 1938, which required that persons appointed to audit company accounts should first be registered under regulations made for the purpose, drew attention to the need for establishing a controlling body as well as for opening an avenue for formal admission into the accounting and auditing profession in Ceylon. Consequently, the CAB was established under the Companies (Auditors) regulations, 1941, which functioned under the aegis of the Ministry of Commerce and Trade. The board consisted entirely of persons nominated by the government, but of these, officials or public officers were in the minority. The only public officer was the permanent secretary for the Ministry of Commerce who was the chairman of the board. Other members were leading businessmen involved in the plantation sector in Ceylon in the 1940s, some of whom were also members of the Chamber of Commerce. Under the regulations of the board, registration for the purposes of auditing company accounts was open to members of the established professional societies in Britain and to persons registered under company

legislation in India; there were a small number of Indian accountants registered with CAB (Ceylon Sessional Paper, 1950; Nesaratnam, 1999). As pointed out by an interviewee:

There were about less than 100 accountants at that time in Ceylon. Under the objectives of the CAB – all the practicing auditors at that time were requested to register under CAB. So there were accountants who were qualified from the UK and also some were qualified from India (Interview, 26).

As mentioned earlier, the RAs who qualified from the CAB had to undergo education and training processes similar to that of British professionals in the UK. Moreover, in Sri Lanka, the articles training had been arranged under the supervision of British qualified professional accountants. However, British-qualified professionals (i.e. British nationals with UK accounting qualifications) and British-qualified Sri Lankan nationals did not want to give similar recognition to RAs as they themselves enjoyed. Rather, they allowed RAs to practice only in small business enterprises, such as sole proprietors, co-operative audit and services to small businesses (Yapa, 2010), while many of them worked in the state sector as government accountants (Sri Lanka accountancy service). In this way, an environment was created to distance RAs from the profession. One of the interviewees explained his dissatisfaction as an RA who worked in a Mercantile Company as follows:

I went there as an assistant secretary and also as an accountant but I found things again manipulated there—British manipulate—and we had to follow their instructions. I found to my great disappointment, I was recruited because they wanted to have British... It was the ceylonnization rules which explained that if a firm needed a British national, a local executive had to be appointed first. So, a British director was brought in - so I had little to do - I was moved away from profession to business trading (Interview, 17).

This suggests that locally qualified accountants were inferiorly treated by the professional accountants who obtained their qualifications from the UK. In order to comply with the state's Ceylonnization rules, a lot of manipulation occurred to recruit more British nationals to the accounting and auditing profession. These circumstances led to considerable dissatisfaction and disappointment on the part of RAs. Moreover, the CAB examiners (British qualified professionals) set tough examinations, and RAs had to undergo rigorous articles of training for payment of premium (the principal sum to be returned to the articulated clerk in instalments).

An RA interviewee described his experience with the CAB in the following way:

The examiners of the Ceylon Accountancy Board set very high standards. I had a suspicion—a lot of us had a suspicion—about these restrictions. So that inflow from UK kept closed and they stopped the outflow from here. So, we had a suspicion. In fact we went to newspapers and complained about this injustice. A very few passed the exams. I remember when I passed in 1958; there were only four of us who passed (Interview, 17).

Exclusionary closure strategies in the professionalization process acted as boundaries permitting only the ‘eligible’ to enter (Murphy, 1984; Saks, 1983; Witz, 1992). These kinds of social class-based closure attempts were used on many occasions by British in many parts of the world during the process of accounting professionalization (Willmott, 1986; Chua & Poullaos, 1998, 2002; Kedslie, 1990; Lee, 1990; Macdonald, 1984; Walker, 1991; Walker & Shackleton, 1998; Hammond, *et al.*, 2009). This ‘exclusionary closure’ strategy was designed to keep locals out of the profession. In her study, Sian identified and discussed similar occurrences in her Kenyan study on the professionalization of accounting (Sian, 2007). One of the Sri Lankan RAs explained his experience as follows:

To register [as RA], they introduced all those requirements and also required [us] to be apprentice articulated in a firm of chartered accountants - the approved firms were few at that time and they charged hefty premiums from the students – British firm – actually, if I can remember correctly. They charged from a prospective articulated clerk something like 5,000 rupees at that time in late 1940s and early 1950s which could have bought you a motor car. There was no allowance or salary – so it was a type of slave labour – you worked for [a] four year period of articles – earlier it was five but later they reduced it to four – you worked for the four year period rigorously – it was 8.30am to 5.00pm still. You were not paid but they returned your premium which I think came to about 90 rupees and it was called return of premium; it was not a salary so they did not care about labour laws and rules. I remember when first time I went for the interview the British partner asked from my father ‘Did you bring the cheque?’ (Interview- 17).

This suggests that there were some barriers to entry into the accounting profession. During this period the political and economic setting were strongly influenced by the British. The British professionals held a practising monopoly, and closed off the profession to most Sri Lankans. As indicated earlier, setting up the CAB was mainly to serve the British business interests in Sri Lanka and it was not helpful for the accounting manpower needs emerging from the development projects that had been introduced by the nationalist government during this period in Sri Lanka.

At the inception of the CAB, as a requirement of the memorandum, every professional who practiced as an accountant had to be registered under the CAB prior to the commencement of their practice in Sri Lanka. According to the Special Committee

Report in 1949, most auditors who were registered with the CAB had their qualifications from UK-based professional bodies such as the ICAEW, the IIA and the ACCA.

The CAB offered exams while maintaining a 'Register of Auditors' for those who were qualified at that time to practice as auditors. Among the registered accountants some of them with book keeping and accountancy certificates from the Ceylon Technical College and some of them with membership of an accountancy institute of Great Britain. In practice however, the RAs who did not have UK qualifications only provided auditing or accountancy services to small businesses such as sole proprietors, corporative societies or some partnerships (Yapa, 2010). As revealed by an interviewee:

At the same time CAB conducted exams... Intermediate and finals- In intermediate exams they covered – Book Keeping, Auditing, General Commercial Knowledge subjects and for Finals it covered – 2 Accounting papers, Law including Partnership, limited companies law, general financial knowledge, Taxation and Management Accounting – At that time the objective of the CAB was to just conduct the exams – no facilities were there for lectures or tuition like today. Those who did the exams had to do self-study to do their exams. It was very hard and many candidates who took the exams of CAB failed their exams- Most of the exam papers were set locally – and the marking was done by some local British accountants' (Interview - 26).

This interview evidence was validated by data provided in the Special Report of 1949; very few of those enrolled passed the exams conducted by the CAB. Table 4.1 shows the examination results of the CAB in 1949 in Sri Lanka. In 1949 two examinations were conducted by the CAB for intermediate level. Only five students out of 22 completed the intermediate level examination successfully, which means there was failure rate of 78%. The pass rate of the final level was 16% which means 84% of the students failed their final exam. Put simply, only 2 out of 12 students successfully completed their final level.

There were only 15 people who completed the full term of articles but they did not pass the first examination of the CAB before 1949. With regard to the CAB's examinations, the 1949 Special Committee reports on the status of the accounting apprentices as follows:

Ceylon at present (1949) there are 23 persons who have passed the first examination of the Accountancy Board and are entitled to sit for the final. Ten persons took the full period of articles to pass even the first examination when they should really have passed both examinations. It is problematical whether these ten will complete the examination. The remaining 13 are likely to pass out in the near future. It is understood that about 15

or 20 are endeavouring to get through the Chartered or Incorporated examinations in the United Kingdom. It may be safe to say on present statistics that perhaps 5 chartered or incorporated accountants might pass within the next three years. Further in Ceylon there are 20 accountants who are entitled to take articled pupils of whom the Board allows 3 to each accountant, i.e., at any time there should be a maximum of about 60 articled clerks though in fact there are only 51 going through their article ship just now (Report of the Special Committee, 1949:6).

This archival record suggests that many of the candidates who registered for CAB examinations were not able to complete their exams. It suggests also the lack of facilities to prepare for accountancy exams at that time. However, the British professional examination performance was quite successful as shown in Table 5.1.

**Table 5.1 Examination results in the UK and Ceylon in 1948**

**Chartered Accountants (ICAEW)**

	<b>Number of candidates</b>	<b>Number who passed</b>	<b>(%)</b>	<b>Failed</b>	<b>(%)</b>
Intermediate	829	345	42	484	58
Final	780	307	39	473	61
<b>Total</b>	<b>1609</b>	<b>652</b>		<b>957</b>	

**Institute of Incorporated Accountants (IIA)**

	<b>Number of candidates</b>	<b>Number who passed</b>	<b>(%)</b>	<b>Failed</b>	<b>(%)</b>
Intermediate	394	141	36	253	64
Final	443	157	35	286	65
<b>Total</b>	<b>837</b>	<b>298</b>		<b>539</b>	



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**Association of Certified and Corporate Accountants(ACCA)**

	<b>Number of Candidates</b>	<b>Number who passed</b>	<b>(%)</b>	<b>Failed</b>	<b>(%)</b>
Intermediate	846	216	26	630	74
Final	435	112	26	323	74
<b>Total</b>	<b>1281</b>	<b>328</b>		<b>953</b>	

**Ceylon Accountancy Board (CAB), 1948, for qualifying Registered Accountants (RAs)**

	<b>Number of candidates</b>	<b>Number who passed</b>	<b>(%)</b>	<b>Failed</b>	<b>(%)</b>
Intermediate	22	5	22.7%	17	77.3%
Final	12	2	16.6%	8	83.4%
<b>Total</b>	<b>34</b>	<b>12</b>		<b>22</b>	

Source: Report of the Special Committee, 1949

As shown in Table 4.1, ICAEW exams were the most popular during this period. A total of 1609 candidates were enrolled to take the intermediate and final exams of the ICAEW both in the UK and in Sri Lanka. The second most popular exam was ACCA's, with an enrolment of 1,281 candidates for both intermediate and final examinations. The third most popular exam was IIA's, with 837 candidates enrolling for intermediate and final examinations. This suggests the status quo and prestige of the profession at that time in the UK. Among the associations, institutional differences based on the quality and specialities of their respective memberships emerged; Walker described this as a "diffuse array of accountancy organizations" (Walker and Shackleton, 1995: 467). In the latter part of the 1930s, professional bodies in Britain focused on amalgamating the disparate structures of accountancy organizations (Walker and Shackleton, 1995). In the context of UK professional bodies, Perera (1975) described succinctly the existence of three British professional bodies in practice:

There were three principal professional bodies in the UK, to which prospective accountants in the Sri Lanka had to look to obtain their qualifications. These were the Institute of Chartered Accountants in England and Wales, the Institute of Incorporated Accountants and the Association of Certified and Corporate Accountants. Among these, the first two required the candidates to be articled under practising accountants, whereas

the third did not have such a requirement. The syllabuses of final examinations of all the three bodies appear to cover same ground. Interestingly, it was mandatory that all prospective Chartered Accountants had to go to the UK to be articled for five years, whereas it was possible for Incorporated Accountants in Sri Lanka for four years and two months before going to the UK to take examinations (Perera, 1975: 92).

This indicates that under professional training of the ICAEW, the body strategically has selected affordable elites to award the qualification through this highly expensive and time consuming process of obtaining the accounting qualification. However, it was observed through the interviews, that the ICAEW training was not that convincing for the trainees from British colonies who went to the UK to obtain their qualifications:

I was not happy with the articles training program because I have gone through the article training in UK when I was studying in the ICAEW – The system was too old and it discouraging people to be a professional accountants. The whole process was very tough and less useful – on the other hand, the article clerk was selected by the relatives or the leading partners (Interview - 15)

Therefore, it was very unlikely for a non-elite person to obtain training from an auditing firm. Moreover, evidence suggests that there was an exploitation of labour under the training arrangement (see Davie, 2000; Bakre, 2005, 2006, 2007; Uche, 2010; Sian, 2011). Perera's 1975 study described how articleship was misused by principals of firms:

It has been assumed, generally that because it is a practice adopted from the UK training under articles is adequate for local requirements, without any proper evaluation being done of the type of training obtained by an article clerk. But it is feared that the principal would be more interested in obtaining service from the articled clerk than giving a proper training to him. Articled clerk often seem to be used for mechanical or routine work in place to bookkeepers or others of more limited capacity, and seldom seem to be given challenging work or real responsibility. It is also likely that the kind of practical training clerks eventually receive would be highly variable depending on the competence of the principal. It is therefore, of doubtful value to require merely a period of practical experience unless, first, the kind of experience required is specified and second, the experience provided to article clerk is supervised (Perera, 1975:93).

This suggests then, that there was exploitation within the accounting profession. The British professionals held a practising monopoly, and did not allow locals to develop as professionals. This point was elaborated on by an interviewee as follows:

In my opinion, practising monopoly is favourable for the professionals because members can expect better prestige position in the society. And, provide some sort of power and authority. Professionals can use their authority as they wish, so it does not mean that act of professionals will definitely help for the development of accounting profession. This monopoly may be one of the reasons why such a small number of members have been qualified during last 50 years. On the other hand, if other professional bodies also involve

with practice, it can create competition which will lead to enhance the quality and number of members in the practice, so it is also important (Interview - 3).

In debating the monopoly that was maintained by ICASL, many practitioners as well as commentators have pointed out many criticisms. In this respect a council member of the ICASL, Mr. Manoharan (1974), the veteran professional accountant who also a researcher has commented on the FTA (1972) scheme and the knowledge monopoly:

Will they not be accused of preserving a knowledge monopoly and presenting its socialisation? Don't these monopolies run a great risk than wealth monopoly, because when wealth monopolies are attacked they are preserved in a distributed form? But when the explosive touches the knowledge monopolies with it may perish the power the knowledge has gained in the corridors of society. This is a challenge that is before the established professions in our social environment and the response the present holders of power in these professions generate will become history (Manoharan, 1974:23).

As Perera (1975) described above, whilst labour was exploited through the knowledge monopoly, an economic and cultural imperialism also existed; for example educated elites had been to the UK for their professional qualification and training by spending huge amounts of money. And, once returned they automatically belonged to a different group or class:

So even at the outset from about 10 years I mean 1948 to 1958 our people that is the educated delight (elite) - going abroad to qualified from foreign countries especially from Britain – because English was the medium of education - that was the tool. They went to England at for different great cost. Not only cost of travel there but there was a cost of boarding. They have studies in the ICAEW, ACCA, or from CIMA. Mostly at that time ICAEW and some went to the Scottish Institute Chartered Accountants to do their chartered, because cost was as heavy as in London. Even now we have some Scottish and ICAEW accountants in the country. When they were come out here, they were absorbed mainly by the mercantile sector (Interview - 17).

This evidence suggests that large amounts of foreign currency have been invested into the British professional accounting bodies in the form of registration and examination fees from these students. This is further evidence of how the British exploited, controlled and expanded their accounting profession in the colony of Ceylon during this period. On the other hand, by setting up of the CAB, the intension was to provide accounting qualifications to locals to employ them in British-owned local companies. As evident from the interviews (RAs), British accountants exploited the local students by charging exorbitant fees to gain British interests and control. One of the interviewees, a CAB-

qualified accountant, was a member of a lobby group who went to the De Silva Commission as a student and stressed the importance of a national accounting body.

Based on the recommendations of the De Silva Commission, the authorities promoted the establishment of a new local institute in Sri Lanka to regulate the profession and the standards applicable to its practice. Despite this, the plans remained shelved for a number of years due to political turmoil<sup>31</sup> and it was only in late 1959 that an Act of Parliament was enacted, which paved the way for its establishment (Yapa and Perera 2005; Yapa 2006).

The De Silva Commission also emphasized the need for appropriate composition of the Council of ICASL. In order to make unbiased decisions, when considering the requirements of accountants in both state and private sectors, the De Silva Commission recommended 6 members from the state sector and 6 from the corporate sector as council members. The next section provides a comprehensive set of information about the De Silva Commission.

### **5.9 Commission on company law, banking, insurance and accountants & auditors (De Silva Commission) 1950**

Soon after independence there was pressure for a local accounting body. In 1948, a Royal Commission was appointed to review, among other things, the law relating to companies and to recommend amendments to the law that may be necessary for public interest in the light of recent developments in other countries. The Commission on company law, banking, insurance and accountants and auditors, was appointed under the chairmanship of L.M.D. De Silva early in 1949. The objective of the De Silva Commission report is “to make recommendations as to the measures that should be adopted for the training and registration of, and the maintenance of professional standards among, Accountants and Auditors of Ceylon” (De Silva Commission, 1950: 3). The report of this commission – known as the De Silva Commission Report – was published in February 1950 as Sessional Paper 5, 1950 (De Silva Commission, 1950). During the committee

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<sup>31</sup> From 1950 to 1959 the political situation in Sri Lanka was highly volatile and three successive governments ruled the country. The Prime Minister S.W.R.D. Bandaranayke, was assassinated during this period. Due to conflicting views among different groups of politicians in the ruling party, a number crossed over to opposition party. Hence the passing of the ICAC Act was postponed and not given any priority until 1959.

investigation from 1948 to 1949 the commission summoned educated Ceylonese and collected their opinions in order to enhance their understanding of the requirements for a national accounting body.

***Primary survey report of the De Silva Commission***

A primary survey was conducted by the commission in order to assess the existing situation of the professional accounting arrangement in the country. The primary survey identified the following: whereas established authorities and recognized principles had for several years governed admission into the legal and medical professions in Ceylon, accountants had been comparatively unregulated in these respects. There has been a gradual increase in the number of people who had qualifications awarded by established professional societies in Britain. Those professionals were in practice in Ceylon either as individuals or in partnership. It was revealed that people with qualifications obtained in India also set up practices. In the absence of an authority in Ceylon empowered to supervise training and admission into the profession, the number of qualified accountants, especially Ceylonese, has been meagre. A few Ceylonese have had the benefit of apprenticeships under those with recognized qualifications, and have subsequently commenced practice, but in the absence of standards for training and of an authorised examination body, it is difficult to estimate the number of those who have attained the high degree of efficiency required to fulfil the present needs of the country (De Silva Commission, 1950). Thus as it was previously discussed in this chapter, the CAB acted in the country but no significant improvement or contribution was made to the accounting profession. Of course, the CAB was established to assist for British businesses and not to address the issues relevant to national economy (Special Committee Report, 1949).

According to the primary survey of the De Silva Commission:

An attempt has been made to establish in Ceylon a purely professional body of qualified accountants with the object of advancing to a stage which this body might be recognised as an admitting and supervisory authority. This body, the Ceylon Society of Accountants and Auditors, came into existence sometime after the Accountancy Board. All qualified Accountants are eligible for membership and many of them are members of the society; it has its own rules as to the apprenticeship of articled clerk and wishes also to control professional conduct; and apprentices trained under its auspices are admitted to the Board' examination but both the Board and the Society are agreed that the time has come to the Government to step in and lay down a broad – based policy for the future which must take into account existing deficiencies and the changing circumstances of the

country. It is to this end that our recommendations are directed we append a draft bill [ICAC] which will give effect to them and reference is made where necessary in the succeeding paragraphs to the clauses of this draft (Report of the De Silva Commission, 1950: 4).

As indicated in the above quote, in addition to the CAB another association emerged among accountants and auditors in Sri Lanka called the Ceylon Society of Accountants and Auditors (CSAA). Membership to this society was voluntary and professional conduct and the apprenticeship of articled clerkship was maintained for a short while in Sri Lanka. Both the CAB and the CSAA operated together until the proposal to set up a local accountancy body was approved by the Sri Lankan government.

### ***Establishment and designation of an institute of accountants***

A recommendation was made by the De Silva Commission that the government should introduce a legislation setting up an authority to be charged with full control of admission into the profession of accountants, and of the maintenance of the professional standards and discipline. A question was raised whether the authority was to be a purely professional and autonomous body like the ICAEW and other similar societies. The commission recommended that a considerable period must elapse before such a step could properly be taken in Ceylon, because as stated earlier, thus following quotation describes the Commission's opinion in this regards:

The profession included only a comparatively small body of qualified men, in the absence of need or desirability of maintaining proper professional standards, except among those upon whom the organization of these standards is imposed through their membership of institutions abroad. Autonomy can rightly be conferred only in the case of a society which after long existence in a position by reason of wide membership and a record of achievement, to command the confidence of its members and of the public in general; it is obvious that such a stage has not been reached in Ceylon in regard to the profession of accountants. Both the CAB and the CSAA are in agreement with us on this matter (Report of the De Silva Commission, 1950: 4).

Therefore, the Commission recommended requirement of council which represent both state sector and members of the institute. Following quotation has provided that:

...there should be established a Ceylon Institute of Accountants the governing body of which will be a Council consisting partly of Government representatives and partly of representatives of the members of the institute. We have considered the desirability of providing that some of the persons on the council should be elected by members of the institute, but we think that at the outset even persons on the Council who will represent the members of the Institute should be nominated for the purpose by the Minister. After the Council so constituted has functioned for five years, the majority of the members of

the Council can be selected by the members of the institute (Report of the De Silva Commission, 1950: 4).

The commission recommended a responsible team to carry out required duties. As per commission recommendation Chairman of the Council should be nominated by the state (public officer) and the other five nominated public officers by the Minister. The remaining seven members can be selected by the members of the institute.

### ***The choice of a suitable designation for the proposed institute of accountants***

The commission carefully considered the possibility of designating the local body 'The Institute of Chartered Accountants of Ceylon'. To adopt this designation the commission basically considered the following factors as strong points:

1. Ceylon should and may rightly adopt the same designation as a result of their long connection with British.
2. Due to issues of efficiency and reliability of the Incorporated Accountants, there is requirement to establish a recognized local body to qualify accounting professionals locally on the basis of highest standard qualification.
3. India Established an Institute of Chartered Accountants in India by replacing the Indian Accountancy Board (De Silva Commission, 1950).

As it is mentioned earlier, the CAB did not produce enough local professional accountants to meet the national accounting needs (De Silva Commission, 1950: 4.5). Moreover, the CAB qualification was recognized as a third tier qualification because the ICAEW and IIA qualifications were more popular in the country due to British qualifications guaranteeing job offers in British companies at that time (see Table 4.1). It was revealed through interviews that the CAB qualification was undermined by the British-owned mercantile companies and not recognized for auditing public companies. However, the commission recommended four classes of professionals at that time, to be eligible to enter into the new accounting body. They are as follows:

1. Those who under the auspices of the institute complete the prescribed apprenticeship and pass the qualifying examinations.

2. Members of established British or other societies approved by the council as being societies of equivalent status.
3. Persons who at the time when the new law came into operation would have been approved for the purposes of the Companies Auditors Regulations, having qualified for such approval by passing the examination conducted by the Ceylon Accountancy Board, or by reason of having been registered under the Indian Companies Legislation.
4. A special class of persons to which we refer in paragraph 11 below.

(Paragraph 11- Provision for Registered Accountants and Auditors: who are already in the public practice without required qualifications for awards the membership of the institute, can fulfil the requirement by passing of a special examination to be held by the Council for the purpose.)

(De Silva Commission, 1950:6 -7)

The powers, functions and finances were also decided by the commissions as follows:

The Council will be vested by law with all the power and functions necessary to regulate admission into the profession, and to secure the maintenance of professional standards, the encouragement of research and student activity and generally the advancement of the profession in Ceylon. It will also have the power to levy fees for admission as well as fees for the annual practicing certificates to members of the Institute and the other class of registered accountants. These collections will form a fund which would be utilized by the Council for the exercise and performance of its functions and duties (De Silva Commission, 1950:6).

## **5.10 Development of accounting profession**

As discussed at the beginning of this chapter, Sri Lanka inherited the accounting profession from the British model. Therefore, the Sri Lankan accounting profession was profoundly controlled by British professional accountants until the 1960s for the training and accreditation of local accountants. This situation can best be explained by understanding how the British professionalization tradition operated. Surprisingly, even after the establishment of a national accounting body, members of that body maintained the British system of conditions to maintain the local accountancy profession until the 1980s. As a result an elite group of accountants (CAs) dominated the ICASL Council and various closure strategies were developed to maintain professional status within the accounting profession in Sri Lanka.



The Sri Lankan government provided free education from primary to university level from 1944, and it has been a national policy ever since. This decision was not just made by the state, but was a result of a continuous struggle by indigenous politicians who were led by Dr. C.W.W. Kannangara. The free education bill was introduced to Parliament on the 30<sup>th</sup> of May 1944 and passed after much debate in the State Council in August, 1944. The free education scheme was an invaluable contribution to indigenous Sri Lankans.

### **5.10.1 Accounting as a core discipline in universities**

Higher education in Sri Lanka was based on several prominent Pirivenas<sup>32</sup> during the local Kingdoms. The origins of the modern university system in Sri Lanka dates back to 1921 when a university college, the Ceylon University College was established at the former premises of the Royal College Colombo, affiliated to the University of London. However, the beginning of modern higher education in Ceylon was in 1870 when the Ceylon Medical School was established followed by the Colombo Law College (1875), the School of Agriculture (1884) and the Government Technical College (1896). However, there was no local university Act in the country until the enactment of the Ceylon University Ordinance Act No. 20 of 1942. The Ceylon University was located in Colombo and several years later a second campus was built in Peradeniya (Central district of Sri Lanka). The University of Ceylon became the University of Sri Lanka in 1972 due to the University of Ceylon Act No. 1 of 1972, which resulted in a more centralized administration and more direct government control; this gave way for the creation of separate universities with the introduction of the Universities Act No. 16 of 1978. Even though new universities with autonomy were created, the government maintained direct control and centralized administration through the University Grants Commission.

However, accountancy was not considered a separate area of specialization until the report CITE in 1963, which pointed out the necessity for accounting manpower in the nation more than ever. Before 1963 accountancy education was confined to only a few subjects offered in the Bachelor of Arts special degree in Economics. However, there were no accountancy degree programs until the late 1960s. So, why did Sri Lankan

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<sup>32</sup> Buddhist Temple based education institutions for locals that provided facilities up to tertiary education.

universities ignore accountancy education as mainstream when developing degree programs?

Local universities followed the British tradition and did not recognize accounting as an academic stream of education. For example, in the UK, Oxford and Cambridge Universities were famous for attracting elite societies and this (Ox-Bridge model) had been reluctant to develop accounting programs and, as a result, the ICAEW stands out as an empirical anomaly in that it has not developed its training, education or certification within the university sector in Sri Lanka. The offering of a Bachelor of Commerce degree by the University of Ceylon in the mid-1960s was a significant development, but university accounting qualifications were disregarded by the ICASL, who followed the imperial model with the aim of maintaining a privileged status within the profession (Yapa, 2000, 2010; Abbott, 1988).

The studies on university accounting education emerged towards the end of the 19<sup>th</sup> century (Johnson, 1982; Chambers, 1987; Abbott, 1988; Brante, 1990; Lee, 1995). Even though there are many positive arguments for accountants to be university trained, the consolidation of accounting as a university discipline has not been free of criticism:

Accounting education began to swing to the universities at the end of the nineteenth century. That created opportunities for enrichment and refinement, by recourse to the established and fruitful methods of analysis and inquiry of other disciplines. But the opportunities have been passed by (Chambers, 1987: 100).

A similar study has been conducted by Annisette and Kirkham (2007) and their comments on the relationship between universities and the profession coincide with Chambers (1987) views. They argued that in England, the professionalization of occupations showed an unusual link with universities, because it was different from usual university/profession relationships, when compared with other professions such as medicine and engineering; it is also different from the rest of developed countries. Thus, Annisette and Kirkham commented:

The education and training of accountants in England stands out as an anomaly when compared to counterparts in other industrial countries of the world, is in some part attributable to conditions prevailing in Britain during the professionalization era of the mid to late 19<sup>th</sup> century. These conditions affected not only accountancy but other professionalizing occupations as well. Thus like accountancy, none of British medicine,

law or engineering had much association with the universities during their major periods of professionalization (Annisette and Kirkham, 2007:4).

Thus, it was the tradition in the UK, especially in relation to professional accounting education and training that there was no noticeable relationship between universities and professional accounting bodies. This same tradition was brought into the colonies by the British. It is observed in many of the studies on British colonies that university accounting education is not regarded as an appropriate method for becoming a professional accountant (Annisette, 2000; Davie, 2000; Annisette and Kirkham, 2007).

However, scholars have commented that professional fields are preceded by an extensive education process, which cannot be achieved only from professional education, because professional students also need to accumulate a systematic and generalized knowledge as basis for their professional competence. In her study, Barber (1963) made valid comments:

The university professional school has as one of its basic functions the transmission to its students of the generalized and systematic knowledge that is the basis of professional performance. Not only the substantive knowledge itself, but knowledge of how to keep up with continuing advances in professional knowledge is what the university school seeks give to its students. Where the body of professional knowledge is changing very rapidly, the university professional school may take a direct role in promoting the “adult” education to the members of its profession through professional training courses, seminars and institute (Barber, 1963: 674).

Similarly, in Sri Lanka, university and professional education do not have a link, and are therefore two separate study processes. This means that like in England, professional bodies did not negotiate with the universities and vice versa (Annisette and Kirkham, 2007). The relationship between universities and the accounting professional body have always been problematic; there is much evidence that university education is a key to success in many professional fields. In contrast, it was observed that in the case of the ICAEW, this dysfunctional relationship was the main reason for the success of English Accountancy. Professional training and examinations have been used as strong controlling mechanisms by the elite group (Annisette and Kirkham, 2007).

## 5.11 Summary

This chapter examined the political settings of post-independent Sri Lanka and highlighted the British influence on the Westminster system and how it directly impacted the accounting profession in Sri Lanka. While the political setting was developing, the nationalistic economic policies were introduced by incumbent governments in Sri Lanka and made an attempt to develop the private sector, providing sufficient regulatory framework for its development. Consequently, an economic liberalization policy package was implemented from the late 1970s which provided a solid background for developing the accounting and auditing services to maintain accountability and best practices required by various stakeholders, including the state. As indicated, capital market development is considered one of the key contributing factors to ensure an efficient and reliable accounting and auditing profession in Sri Lanka during post-independence. Despite the fact that the local accountancy body (ICASL) was set up in 1959 with an Act passed by the Parliament, the British influence on the accounting profession continued and was dominant. As discussed in the chapter, due to British qualified professional accountants' involvement in the council of the local accountancy body and the maintenance of various controls, the state's development projects were not taken into consideration by the local accountancy body.

Emergence of a market for specialist skills in accountancy was linked to the high demand for financial accountability associated with corporate ownership in many of the capitalist societies in the world. Britain is one of the pioneers of the capitalistic ladder in the history of the industrial revolution. Even at the outset of a capitalist society, the engines for capitalist development are the shareholder-owned limited liability companies. As a result a series of legislative measures designed to encourage the growth and stability of these enterprises, a market for the skills of accountants as independent consultants and in-house employees emerged.

In 1944, the colonial government awarded dominion status through the enactment of a new constitution and post-independence the newly appointed nationalist governments introduced democracy. Immediately after independence the newly appointed government acted against the liberalization by rejecting global concepts. These nationalistic attitudes of the leaders left the country isolated from the rest of the world until 1977.

However, the period from 1948 to 1972 was extremely important for the development of the accounting profession in Sri Lanka. For example, the state appointed commissions (Special Committee Report, 1949; De Silva Commission, 1950; NEC, 1961; CITE, 1963 and FTA, 1972) to investigate the accounting profession and suggest suitable recommendations to improve it. The evolving economic and political development, along with UK influence, was very influential in the development of the accounting profession in Sri Lanka as will be discussed in Chapter 5.

## **Chapter 6: Analysis of accounting professionalization process: the establishment of the ICASL**

### **6.1 Introduction**

Chapter 4 examined the political and economic developments and the regulatory framework that took place during post-independence and how this impacted on the accounting and auditing profession in Sri Lanka from 1959 to 2010. The ICASL was established under the Institute of Chartered Accountants Act No. 23 of 1959, eleven years after political independence. Subsequently, in 1972, under new constitutional arrangements, the name of the country was changed from Ceylon to Sri Lanka and the Institute was eventually renamed the ICASL. The 1959 Act institutionalized the distinction between the ‘elite’ and ‘non-elite’ accountants and determined the type of work that could be conducted by both. The elite accountants monopolised public practice and dominated the ICASL Council, which in turn sanctioned UK-moderated examinations and training under articles (Yapa, 2010). Various professional tussles and conflicts of interest occurred between the elite and non-elite groups within the profession. The former group, the founders of the ICASL, qualified with UK accountancy qualifications (such as ICAEW), and the latter qualified from the local CAB and local universities, and they formed the lower tier of the accounting profession in Sri Lanka. Since the elite group had powerful connections in the Sri Lankan society, they were able to craft an elite tradition and follow a strategy to create market closure by excluding the non-elite group from the accountancy practice during the period under investigation in this study. This chapter also analyses the interactions between the ICASL and other social institutions in terms of the negotiation, cooperation, confrontation and conflict that occurred in the accounting profession in Sri Lanka during the period from 1959 to 2010.

This chapter aims to analyse and discuss the main research question of this study, which relates to the ICASL and its maintenance of control, and the conflicts and interactions between professional groups; it also seeks to examine the influence of the British on the professionalization process of accounting in Sri Lanka. While focusing on the main research question, this chapter will address the sub questions: (a) how did the ICASL

council maintain conditions which gave rise to exercising strategies to control the profession? And (b) what was the nature and extent of the institutional influence of British-based professional accountancy bodies (ACCA, CIMA) on the development of the accountancy profession in Sri Lanka? This chapter is based on semi-structured interviews conducted by the researcher with individuals who were involved in the accounting profession in Sri Lanka. These interviewees are either retired or semi-retired, and played key roles within the ICASL, in accounting practises and in the reform process during the period under investigation.

The remainder of this Chapter is organised as follows. The next section explained the link between social closure theory and accounting profession. 6.3 describes the establishment of the ICASL. Section 6.4 explains the ICASL and interactions with other institutions. Section 6.5 reviews the practicing monopoly in the Sri Lankan accounting profession and its influence on the development of the accounting profession. Section 6.6 describes how the ICASL closed professional accounting opportunities for the average non-elite citizen of the country. Finally, section 6.7 provides the summary of this Chapter.

## **6.2 The link between social closure theory and the accounting professionalization process**

Following Macdonald's (1995) depiction (as shown in Figure 3.2 page 68) the closure influence on the professions can be looked at from two different perspectives, namely 'Economic Order' and 'Social Order'. These two main perspectives have been further extended as 'Monopoly of knowledge', 'State influence' and 'Legal Monopoly'. These concepts have been critically analysed by scholars (for example, Weber, 1978; Abbott, 1988; Macdonald, 1984, 1995; Witz, 1992). Similarly social closure involvement into the Sri Lankan accounting professionalization process and its interconnectedness with economic, political, societal and legal frameworks have explained the link between social closure and analysis of the accounting professionalization process in Sri Lanka.

### ***Economic order***

This section described how social closure existed through 'Economic Order', or economic transition in Sri Lanka as depicted by Macdonald (1995). After political

independence in 1948, the country was under national state control economy. During that time professional accounting knowledge was with British professional accountants and they did not want to train local accounting students who were graduated from local universities. Thus evidence suggests that the closure has been existed since then (Perera, 1975; Yapa, 2006) to restrict the entry. The control of accounting education is argued to be one dimension of professionalism; yet managing this control was a problem for the accounting associations when accounting education shifted to universities and technical colleges (Birkett, 1984; Freidson, 1994; Johnson, 1972). The education and training for the ICASL examinations were originally conducted by private tutorial colleges in Sri Lanka. As mentioned earlier, the ICASL Act 1959 institutionalized the distinction between the 'elite' and 'non-elite' (i.e. mainly the RAs) accountants, and determined the type of work that could be conducted by both. This created societal division within the profession for example, RAs were treated as lower tier professionals and members who qualified from the ICASL were treated as higher status group in the profession (interview – 17 and 15).

### ***Social order***

According Macdonald (1995) 'Social Order', has also been empowered in the society in a way that elite professionals can act as gate keepers by closing off the profession for limited eligible. As a colony of British, Sri Lanka had been controlled by the British state-appointed authorities while providing opportunities to the private sector to operate businesses under free market conditions. After the enactment of the UK Companies Act of 1929, the colonial government changed company law in Sri Lanka and followed the British Act when they were enacting the Companies Ordinance No. 51, 1938 (Perera, 1975). Two major political parties, i.e. the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP) played a dominant role in the shifting of power to eventuate reforms in the economic policy regimes in the country. In summary, for about two decades after the general elections in 1956, four governments of party coalitions headed by either the SLFP (1956-59, 1960-65 and 1970-77) or the UNP (1965-70) ruled the country with different political ideologies. During this time state sponsored commissions had been appointed to investigate the current requirements for education, including accounting education in the country. For example, NEC was appointed in 1961 to investigate the educational issues of the country and in 1963 the CITE was appointed



under the commissions inquiry Act No. 17 of 1948 also for education reform. Because during that time it was a necessity of the state to take suitable steps towards meeting the new social, economic and employment, and accountability needs of society. As a result of the state pressure for professionally qualified accountants, a special committee was appointed by the Council of the ICASL in 1972 under the title “Future Training of Accountants” (FTA) to bring about a major revision of the training scheme of the ICASL(FTA, 1972).

### ***Legal Monopoly and Monopoly of Knowledge***

In order to support the emerging accounting manpower needs of the new industrial sector, the government established the ICASL in 1959, by an Act of Parliament. This Act gave power, (state grants monopoly) as cited by Macdonald, (1995), to the ICASL to act as an independent, autonomous body and to fulfil the national accounting needs of the country. The objectives and the programs offered by the ICASL were similar to the ICAEW in the UK. The monopoly of accounting knowledge vested with the ICASL due to state granted monopoly. It is interesting to note that the monopoly still exists in the accounting professionalization process. Thus as empirical evidence suggests that the ICASL seems to be following the same strategies as the ACCA, CIMA and ICAEW in the recent past in seeking the university/profession relationship to expand the market share through membership. Interestingly the ICASL apparently does not have any link with Sri Lankan universities. However, the ICASL is maintaining collaborative arrangements with some foreign universities to provide accountancy qualifications. In 2002 the ICASL developed affiliations with foreign universities (University of Southern Queensland (USQ) – Australia, INSEAD of France and Cranfield University School of Management – UK) to offer post graduate diplomas and Masters Degrees for those who had completed the ICASL examinations. Thus the closure strategy is alive and kicking even today in the Sri Lankan case. Details discussion has been extended on social closure based entry barriers from section 6.3 onwards in this chapter (Act of Corporation and Regulation of the ICASL Act. No. 15 1998: 3).

## **6.3 Establishment of the ICASL**

This subsection explains the enactment of the ICASL Act and various debates and disagreements among stakeholders, and the involvement of the state on the setting up of the local accountancy body – ICASL.

### **6.3.1 The Institute of Chartered Accountants Act. No. 23 of 1959**

As mentioned in the previous chapter, the De Silva Commission (1950) emphasised the need for a suitable local accountancy body in order to make appropriate decisions when considering the requirements of accountants in both state and private sectors. The De Silva commission recommendation, as discussed in Chapter 4, was not considered by the state as it was not a priority among policy-makers due to changes in governments during the 1950s (Yapa, 2006). However, subsequent social and economic development highlighted and supported the setting up of the ICASL.

As discussed in Chapter 4, in 1952, the World Bank recommended that the Ceylon government should make arrangements to promote the small and medium scale industries, due to the limited capacity of the private sector at that time. As a result, in 1956 the newly-elected government decided that all key industries would be run by the state. It was also a major shift in industrial policy when the government enacted the Corporations Act (No. 19 of 1955) and the State Industrial Corporations Act (No. 48 of 1957), which empowered the state to set up and carry out industrial undertakings (Perera, 1975; Yapa, 2006). This was considered a turning point in Sri Lankan commercial and industrial development.

The first industrial park of the government's Ten Year Plan (1959-68) placed special emphasis on commercial and industrial activities in Sri Lanka. As a consequence of these developments, the recommendations of the De Silva Commission (1950) were considered important and legislation was enacted to incorporate the ICASL.

As noted in Chapter 5, in the mid-1950s major steps were taken by the government to promote and facilitate economic development by creating new regulations and establishments. It is vital to have an authorised national accounting body to provide a range of financial advice and systematic reporting methods to support mechanisms for

the emerging business sector. On the importance of state intervention, Johnson observes that, a profession emerges as a historically unique articulation which involves the interrelated process of State formation and professionalization (Johnson, 1982). With all the business developments taking place in the country there was pressure for a local accountancy body. While these developments were taking place, the Minister for Food, Trade and Commerce realized the requirement for a national accounting body in 1957. On 14<sup>th</sup> August 1957, the Minister of Trade and Commerce stated:

There is a dearth of accountants because of the simple reason that the system that operates in regards to accountancy examinations is in such a terribly muddled state at present. I shall certainly follow the advice of the Honourable Member for Dehiwala-Galkissa and get this bill through as soon as possible (The Accountant, 2010).

As legitimate stakeholders of the local accountancy profession some questions were raised by elite professionals (CAs) as to who would be the members of the national body when it is set up, as there were two different groups of professionals, i.e. British-qualified (elite) chartered accountants (CAs) and Registered Accountants (RAs). Thus a conflicting environment was created among accounting professional members. The elite (CAs) argued that RAs might not have the same degree of confidence to undertake public accounting practices as chartered accountants; hence their right to audit accounts ought to be restricted to small private companies (De Silva Commission, 1950; Yapa, 2006). It was found in Chapter 2 that the Australian accounting profession used similar techniques to ensure the exclusion of individuals from the profession based on wealth, class, race, religion and gender.

Finally, after a long debate between interested parties and the state, the Minister for Food, Trade and Commerce issued an Order declaring the 15<sup>th</sup> of December, 1959, as the date on which the Act was to come into operation (Sivathondan, 2009). After eleven years of political independence, the ICASL was established under the Institute of Chartered Accountants Act (No. 23 of 1959) and the CAB was replaced by the ICASL.

It is interesting to note the parliamentary debates on the formation of the ICASL in 1959. The archival records found in the Hansard report (1959) in the Department of National Archives in Colombo – Sri Lanka – were important sources for some of these debates:

***Institute of Chartered Accountants Bill – [Order for Second Read]***. The Hon. R.G. Senanayake (Hansard Report, 1959): “That the bill be now read the second time.”

This bill should have come up, as mentioned by the hon. Leader of the Opposition, a long time ago. A sessional paper was issued in 1951, after the De Silva Commission on Company Law, Banking, Insurance, Accountants and Auditors, and in the recommendations of the Commission there was a draft Bill; this Bill is modelled on that draft. There are slight changes, but those changes have been made with a view to bringing the Bill into line with present requirements.

The Bill does not require much explanation. As you are aware, the legal and medical professions have certain codes of conduct, and there are authorities which control them. Unfortunately, accountants have no such authority or board to control their activities. Various degrees have been obtained by them, some in India, some in England and some in Ireland, but there was no set standard applied; each one went to whatever school he could go to, or took whatever correspondence course as was available to him, in order to obtain knowledge of the subject; and having obtained degrees these people set themselves up in practice as auditors (ICASL Bill 1959: Hansard Report, Archival, 3150).

During the parliamentary debate, as cited in the Hansard Report, the Minister clearly indicated that there was an urgent and timely requirement for a national accounting body to produce professionally qualified accountants and auditors, and to formalise the accounting profession in the country. The Minister’s statement further highlights another important factor, which was that professionally qualified accountants were needed for both state and private (corporate) sectors. It was further indicated that there was no clear set of standards at the time for a professional accountant. Although the CAB existed and conducted examinations to qualify RAs, it was a body used to register foreign qualification holders before they commenced their work in Sri Lanka. Thus it was not a monitoring body to act on a code of ethics for the professional conduct of accountants and auditors. The CAB produced some RAs who were neglected and undermined by the British professionals (elites), labelling RAs as lower grade professionals (Interview 5, 8, 12).

According to Hansard reports (1959), it was indicated that during the question time in the Parliament, Mr. Bernard Soyza, a member of Parliament who had a sound knowledge of the accounting environment in Sri Lanka, commented on the ICASL Bill; this accounted for the anxiety experienced by the late first Prime Minister of Ceylon (Sri Lanka), Hon. D.S. Senanayake, in the early 1950s. Mr. Bernard Soyza’s Parliamentary speech was found in a Hansard report (1959) and the following explains its main contents:

**[Mr. Bernard Soyza's speech - in the debate at the Parliament in 1959]:**

We welcome the Bill, and we are glad to announce that this is not the kind of Bill which need be the subject of party controversy. It is a bill which has to be welcomed, whatever different points of view we may hold in regard to the future development of the country's economy. Whatever particular system one envisages for the future, the necessity for placing the practice of accountancy and auditing on a proper controlled basis, would be agreed to by everybody.(ICASL Bill, 1959: Hansard Report – Archival, 3154)

This indicates that the Member of Parliament welcomed the long awaited set up of an accounting professional body to address the needs of the accounting profession with the emerging development programs in post-independent Sri Lanka. Continuing his observations of the Bill, he reminded listeners of the intentions of the first Prime Minister of Sri Lanka of his vision for the need for a professional body as follows:

In fact, our complaint has been that the Hon. Minister has seen very long about this business of presenting this Bill before this House. This is a Bill that has had a very long gestation, having been presented in draft form by the Hon. Minister's predecessor, discussed by him on some previous occasion and in fact, it must be mentioned that the late Rt. Hon. D.S.Senanayake as far back as 1951 was very anxious to have a Bill of this nature passed into the Statute book. Unfortunately, his death soon after his announced intention prevented the matter becoming law. Well, Sir, I do not oppose there is much use or purpose in harping about the past when the Hon. Minister has at long last presented this Bill before the House.(ICASL Bill, 1959: Hansard Report - Archival, 3154).

Having recognised the original thoughts of a professional body, the Member of Parliament explained some important insights into the need for a profession in the country as follows:

An internal audit officer in a Government Department performs a useful function but he only sees to it that there is no irregular expenditure either accounting to law or according to Financial Regulations and his job there ends. But a Cost Accountant has something more to do. What is necessary for him to do is to keep his finger upon the pulse or development of what is being done and to see that there is no loss to see in what direction some advantage can be derived. If it is a commercial establishment like the C.W.E., for instance an accountant of that nature would always say in what direction the losses can be cut and in what direction profits can be made, which is something more than what an internal audit would do. That is why, with this first step we have taken having regard to the development of our economy in the form of these boards and corporations. I would like the Hon.Minister to give his mind to this aspect of the matter of placing special stress upon the development of some arrangement for producing the necessary Cost Accountants in this country. It is not an entirely separate kind of activity. It is only a different kind of emphasis upon a different kind of outlook (ICASL Bill, 1959: Hansard Report - Archival, 3162).

As pointed out by the Member of Parliament, the country's need of accounting was not to develop financial accounting but to focus more on cost accounting as the country had

many small businesses and state-owned enterprises. Reiterating this point he further commented on the Bill and the development of programs as follows:

We have sufficiently concentrated upon auditors and the Bill envisages largely the stress upon practicing accountants are a very necessary matter no doubt. I am not for a moment minimizing its importance, but even more important in the other aspect I have mentioned from the point to view of the development programmes (ICASL Bill 1959: Hansard Report - Archival, 3162).

My amendments flow from what I stated earlier, namely, that while we are concerned with placing these auditing accountants on a footing we should develop accountancy with regard to business practice, government practice and also our development programmes, whether in the private sector or the public sector, and more especially in the latter. From that point of view, let other persons also enter this Council so that the stress upon auditing alone will be somewhat reduced (ICASL Bill, 1959: Hansard Report - Archival, 3162).

Also, the Member of Parliament mentioned some of the groups in the accounting profession who were affected as a result of this Bill:

That is all I have to say about this bill. As the Hon. Minister stated, we cannot satisfy everybody with a first attempt of this kind. There will be a number of persons who may be harshly affected. I would, however, plead that in the operation of clause 13 no invidious distinction be made in the matter of the registration of eligible persons (ICASL Bill, 1959: Hansard Report - Archival, 3162).

Section 13 of the Act of 1959 is about the RAs who were covered under this Bill:

Section 13 of the Act of 1959 subsection 13(4) Every person who is registered under this section as an accountant and auditor shall be known as a Registered Accountant and Auditor and shall be entitled to use the addition "RA" after his name to indicate that he is a Registered Accountant and Auditor (ICASL Act No. 23 of 1959:10-11).

It suggests from the above Parliamentary debates (archival record) that the country's need was to produce a sufficient number of cost accountants rather than auditors, to provide adequate accounting manpower for ongoing economic development projects in the country. For example, Mr. Bernard Soyza was a veteran politician and the chairman of the Public Accounts Committee (PAC) for a number of years. The opinions raised by him on the ICASL Bill were concentrated mainly on uplifting the local accounting needs and training accountants to be able to undertake developmental needs at the time. However, these were not the priorities at that time, particularly of the elite accountants who were generally wealthy, of relatively high status in terms of family background (connections with political parties) and lifestyle, and were motivated by ambitions to preserve imperial connections; this group were motivated by their self interest in maintaining the same accounting profession as in the UK. Many respondents in this study

indicated that the requirement for cost accountants, as it was stated in the debate by Mr. Bernard Soyza – ‘the first priority of the requirement of cost accountants rather than auditors’ –was never taken into serious consideration until 2010 by the ICASL.

Finally, the Bill was passed in Parliament, and the Institute of Chartered Accountants Act No. 23 of 1959 was enacted. The Act provided for the appointment of a President and members of the council. This means that occupational closure was strengthened by legislative restrictions as hoped for by the elite groups of the ICASL. The next section is devoted to discussing the formation of the first Council of the ICASL.

### **6.3.2 The first council of the ICASL**

The Auditor General of Ceylon at that time (1959), who qualified in the UK, was appointed as the first President of the Institute. The inaugural president, taking advice from G.C.B Grenier, a Member of the ICAEW, recommended 10 ICAEW qualified chartered accountants to the first council<sup>33</sup>. The council consisted of 4 Sinhalese, 2 Tamils, 2 Muslims and 2 Europeans. However, RAs were not included in this council. Similar exclusion had taken place in the UK accounting profession during its formation. According to Walker and Shackleton (1995), ‘Only the English and Scottish chartered bodies and incorporated accountants were invited to represent the committee’ (Walker and Shackleton, 1995: 483). Thus, the British-qualified professionals who were appointed to the first council managed to exert their authority and exclude indigenous professionals from the council. The official term of this council was 5 years. As indicated by some respondents (Interviewees - 15, 17 and 23), this was done strategically to facilitate the conditions of control by the founding members who were considered an elite group. As Willmott (1986) suggests, professional associations are political bodies whose purpose is to secure and advance the interest of their members. This provides clear evidence that the elite professionals applied a ‘closure strategy’ by appointing only British-qualified accountants to the first council. This is partly

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<sup>33</sup> 1. Mr.L.L.Atygalle, Municipal Treasurer Colombo Municipal Council; Mr T.H Burah, Senior Partner, Burah Hathy & Company, Chartered Accountants; Mr.S.Cumaraswamy, Director, Whittall Bousteads Ltd; Mr D.S.de Silva, Deputy Auditor General; Mr.B.L.W.Fernando, Chief Accountant, Marketing Department; Mr.R.J.Gilmour, Chairman, George Steuart & Co.Ltd; Mr.E.Turner Green, Senior Partner, Turquand, Youngs & Co., Chartered Accountants; Mr.A.I.Macan Marker, Senior Partner, A.I.Macan Marker & Co., Chartered Accountant; Mr.Y.A.D.S.Samaratunga, Lecturer, Ceylon Technical college; Mr K. Sathithananda, Senior Partner, Sathithananda Schokham, Wijeratne & Co., Chartered Accountant (Nesaratnam, 1999; Yapa, 2010).

explained by the fact that 90 of the 121 founding members of the ICASL were British-qualified accountants, while the remaining 31 were Ceylon Registered Accountants (RAs) (Sivathondan, 2009:74-5). This suggests that as Walker and Shackleton (1995) commented, that occupational closure was imposed and strengthened by the legislative provisions of the Act.

The first council meeting of the ICASL was held on 12 April 1960. The ICASL Act No. 23 of 1959 provided the council with authority and responsibility; the following is a quotation from the Act that states the responsibilities of the council:

An Act to provide for the establishment of an Institute of Chartered Accountants of Ceylon and of a Council of the Institute which shall be responsible for the management of its affairs and for the registration and control of and the maintenance of professional standards and discipline by persons practicing or acting as Accountants in Ceylon and for matters connected with or incidental to the matters aforesaid. Be it enacted by the Queen's Most Excellent Majesty, by and with the advice and consent of the Senate and the House of Representative of Ceylon in this present Parliament assembled (ICAC Act, 1959:3).

According to the provisions of the Act, the ICAC had the authority to determine the standards for registering people entitled to practice as accountants and auditors. Accordingly the ICASL had “a legal monopoly” over its members’ public practice according to Section 21 of the ICASL Act:

ICASL – Section 21 – Legal Monopoly -No, person who is a member of the institute or is a Registered Accountant and Auditor or a partner of any such firm of accountants as is referred to in sub-section (3) of section (22) shall practise as an accountant unless he is the holder of a certificate to practice which is for the time being in force (ICASL Act no 1959:14).

This provision of the Act encouraged the ICASL council to maintain their interest in and control over the profession. This practicing monopoly is a special feature of the accounting profession in Sri Lanka. As discussed in Chapter 2 these types of legal monopolies were not granted by the state in former British colonies.

It is found in the literature on the professionalization of accounting (in Chapter 2) that accounting occupational groups attempted to realize closure by obtaining legislations that granted exclusive jurisdiction over the supply of professional accountancy services to niche markets (Abbott, 1988; Sian, 2006; Uche, 2002; Walker, 2004; Willmott,



1986). However, the legal monopoly appears to be a special feature of the accounting profession in Sri Lanka.

The closure strategy was operationalized by setting criteria for professional association memberships, including education, training and certification (Chua and Poullaos, 1998; Sian, 2007; Walker and Shackleton, 1996). Thus, the formation of professional associations was an important event in the professionalization process. According to Carnegie and Edwards (2001) their study portrays: ‘Signals of movement’ and ‘occupational ascendancy’ (i.e., steps taken by occupational groups to hold the control of the profession) pre-formation of an association determines the profession’s ability to establish closure, and such moves after formation of association enable maintaining closure (Carnegie and Edwards, 2001: 302). This empirical evidence suggests that a similar monopoly was secured by the Sri Lankan accounting body through its legal backing from the state; the council of the ICASL was able to exercise their power to close off the profession to a certain segment of the society during the period of this study. The following interview provides evidence of the monopoly in the accounting practice:

In my opinion, practising monopoly is favourable for the professionals because members can expect better prestige position in the society. And, provide some sort of power and authority. Professionals can use their authority as they wish, so it does not mean that act of professionals will definitely help for the development of accounting profession. This monopoly may be one of the reasons for such a small number of members have been qualified during last 50 years. On the other hand, if other professional bodies also involve with practice, it can create competition which will lead to enhance the quality and number of members in the practice, so it is also important. And, also we can enjoy the benefit of the globalization, if we release our monopoly (Interview – 3).

This suggests that the practicing monopoly is still active in the Sri Lankan accounting profession. The next section discusses the ICASL’s interactions with the state and other accounting qualification providing organizations.

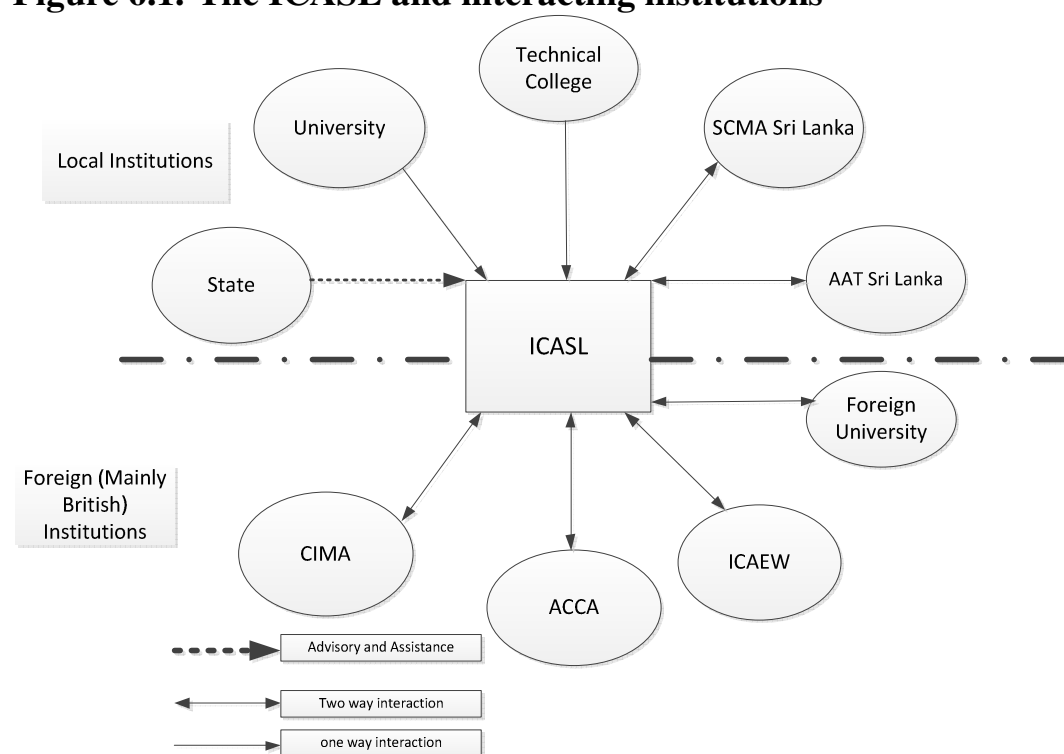
## **6.4 The ICASL and interactions with other institutions**

The professionalization process refers to a series of interactions between occupational associations (in the case of Sri Lanka it is the ICASL) and other social institutions, in relation to a particular set of conditions (see Johnson, 1972; Larson, 1977; Abbott, 1988; Freidson, 1994; Macdonald, 1995). Willmott characterised a profession as “an interest

group that strives to convince others of the legitimacy of their claim to professional recognition” (Willmott, 1986:557). The interactions include, but are not limited to, negotiation, posturing, confrontation, conflict and conciliation. This section attempts to analyse and discuss these interactions, negotiations and conflicts that occurred in the accounting profession in Sri Lanka during the period from 1959 to 2010. Figure 5.1 shows the interacting institutions, state and their relationships with the ICASL.

In this section the researcher seeks to understand the multiple interactions of the ICASL in order maintain their control within the profession. In fact this is the application of Llewelyn’s conceptual framing in this study (Llewelyn, 2003); accounting is a social practice conducted by the diverse social actors (Laughlin, 1995). The researcher believes that this notion successfully applies to the Sri Lankan case of the accounting professionalization process.

**Figure 6.1.-The ICASL and interacting institutions**



Source: Author developed for the study

#### 6.4.1 State intervention into the profession

As discussed, soon after political independence the nationalist government (state)<sup>34</sup> was the main economic controlling mechanism of the country. Among other important initiatives of the state, attention was brought to the financial management systems of the country. In order to acquire a broader picture of the existing financial management system and the requirements of accounting manpower needs, the state appointed several committees and commissions to conduct investigations and provide recommendations on how to meet the emerging needs of the country. This study already discussed the outcome of the report of the Special Committee which was appointed to investigate the Structure of the Accountant's Service in 1961 and the De Silva Commission report (1950) to set up the ICASL.

In connection with the relationship between state and the profession, Ballas (1998) explains the Greek auditing profession and contributes to literature on accounting professionalization. He explains that in Greece the auditing profession was initiated by the Greek state and it was considered an effective instrument of social management rather than to serve the needs of capital. This view has been extended through critical perspective by putting the professionalization process into the broader context of power structures where the state, public and other stakeholders of the professions promote or inhibit the occupational groups' closure moves. Specifically, the exercise of closure invokes major dynamics involving powerful players including the state, clients, elites and other occupational groups that compete to occupy and control jurisdictions (Willmott, 1986). In self-governing colonies in Canada, Australia and South Africa, with colonial associations borrowing heavily from the British model, they applied restrictions at an early stage, but later the profession was not able to be controlled due to state intervention. The case of Sri Lanka presents a classic example of strong support from the state with the parliamentary approval to set up the ICASL. However, interestingly the ICASL neglected the national development agenda and tried to enjoy the practicing monopoly of accounting by controlling accounting education and training. The next subheadings

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<sup>34</sup> State refers to the principles of hierarchical control (Puxty *at el.*, 1987), is also significant in the formation and reproduction of accountancy practice. The State involvement in this study focuses on various committees appointed by the state to investigate the accountancy profession, various amendments to the ICASL Act during the period of this study through the parliament.

discuss state intervention through various commissions against the closure strategy of the ICASL.

### *The National Education Commission on Commercial Education (NEC) in 1961*

One of the important interactions the state had with the ICASL was through the appointment of a state commission in 1961 to investigate and report on commercial education. In 1961, the NEC acknowledged that an expansion of commerce and accountancy education was essential to meet the increasing demand for commercially trained personnel in the economy. After the examination of the ICASL's contribution to the generation of locally qualified accountants, the NEC reported that, as a national accounting body, the ICASL had done very little to meet the future demand for accountants. According to the NEC report:

The present rules and the regulations of Ceylon Institute of Chartered Accountants are so rigorous that it is unlikely to train accountants numerically adequate to meet the existing demand for them in this country. It is therefore, suggested that there should be a joint scheme between the universities and the institute. Graduates of universities who have obtained the degree of the university of Ceylon should be exempted from the Intermediate examination of the Institute [ICASL].....this scheme will undoubtedly increase the supply of professional accountants (NEC, 1961: 45).

The ICASL considered the NEC recommendation and allowed holders of a full-time degree in accounting to claim exemption from the intermediate examination. The acceptance of this exemption took place in the 1970s because of a personal connection with the university through a leading professor in accounting at that time. However, later with the passing away of the leading professor somewhere in latter part of 1970 this scheme of exemption was terminated. It should note here that there was resistance to this scheme from some members of the ICASL council. Further details on this issue will be discussed in Chapter 6. Some elite council members were too concerned about university graduates' knowledge of the English language and their family backgrounds. This scenario was described in a study by Wijewardena and Yapa, 1998, as follows:

University graduates were generally not encouraged to enter the profession during this (1960-1980) period as the dominant elite group in the Council believed graduates to be less proficient in English language and lacking the family background and social connections necessary for acceptance to and progression within the profession (Wijewardena and Yapa, 1998).

In its inquiry process, the NEC found that the facilities and opportunities that existed for commerce and accountancy education at that time were unsatisfactory and inadequate. This was largely due to the fact that the commerce discipline was not recognized for university entrance purposes (NEC, 1961: 43; Yapa, 2006). Further education and training related issues highlighted by the NEC on the accounting profession will be discussed in Chapter 6.

### ***Commission of Inquiry on Technical Education in 1963 (CITE)***

As a result of the state's intervention into the accounting profession, a three-member<sup>35</sup> committee, called the Commission of Inquiry on Technical Education (CITE), was appointed to inquire into and make recommendations for a comprehensive and co-ordinated scheme for Technical Education. Arising out of matters such as technical, industrial, agricultural, commercial and vocational education and training, attention was drawn to the requirements of professional bodies in Sri Lanka to qualify an adequate amount of professionals for the economy. Having investigated the technical education and training activities in Sri Lanka, including the articles training for accountants and auditors by the ICASL, this committee reported its recommendations in 1963 to the state and reported on some important aspects of professional accountancy education and training:

*Professional Bodies:-* The Institute of Chartered Accountants of Ceylon should continue as an autonomous body and be requested to organise its lectures and tutorials to enable articled clerks to follow classes during the day (office hours). This should enable the Institute to increase the output of qualified Accountants who are in short supply today. The Institute should also be requested to introduce a joint scheme with the Universities to enable students to obtain both a degree and professional qualification within a period of six years (CITE, 1963:119).

Fundamentally, this commission (CITE) provided recommendations for uplifting the technical education, such as improving the process of accounting professionalization in Sri Lanka (that seems very broad). Further education and training related issues related to the accounting profession will be discussed in Chapter 6.

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<sup>35</sup> Under the Inquiry Act No. 17 of 1948, (by a warrant dated 12<sup>th</sup> July and 5<sup>th</sup> September 1961).The members of this three-member committee were : T .P. De S. Munasinghe, Chairman; S.Gnanalingam; and A.I. Macan Markar, R. Wijesinghe's (Secretary to the ICASL).

Evidence from the UK accounting profession during the same time period and it indicates that the Parker Committee<sup>36</sup> setup by the ICAEW to report on the education and training on Chartered Accountants in UK. This committee rejected a joint university/profession scheme in the UK. This suggests that the ICASL followed in the ICAEW footprints in the Sri Lankan accounting profession. Following are the Parker Committee's comments on and rejection of the joint degree-professional qualification proposal:

The only conclusion we [Parker Committee] can reach is that even after fifteen years, there is still not enough evidence to show whether in general the joint scheme<sup>37</sup> should be encouraged or abandoned or changed or left as it is (CITE, 1963:111).

Therefore, it is suggested that the ICASL followed the British model's attitude to university education in accounting, and disregarded the joint degree-professional qualification program; thus continuing the imperial tradition in Sri Lanka (Perera, 1975; Manoharan, 1974; Report of the CITE, 1963).

#### ***The exclusion of registered accountants and amendment to the ICASL Act in 1964***

Five years after setting up the ICASL, mainly due to some conflicts and different views on the practice of accounting, the state had to intervene with the ICASL Act. As mentioned earlier, the 1959 Act institutionalized the distinction between the 'elite' and 'non-elite' (i.e. mainly the RAs) accountants, and determined the type of work that could be conducted by both. RAs formed the lower tier of the accounting profession in Sri Lanka and they were treated as low quality accountants and were restricted by the elite group of accountants from practising in large firms. With locally qualified accountants considered second tier accountants, the UK qualified accountants created a class system, and this status quo in the accounting profession was maintained up to about the mid-1970s.

Having completed the required professional examinations and practical training, trainees were eligible to apply for admission as an associate member of the ICASL and were then entitled to use the title of Chartered Accountant 'CA' and/or the letters 'ACA'; the elites deeply honoured their professional status. This status created a social stratification within the accounting profession in Sri Lanka. Elite professionals who represented upper class,

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<sup>36</sup> The 'Parker Committee on Education and Training' was appointed by the ICAEW in 1958.

<sup>37</sup> Universities attempted to negotiate with the ICASL and get exemptions for holders of university degrees to become members of the ICASL.

qualified from the ICAEW, thus believed they were superior accountants to the RAs, who were local university graduates representing the middle class in the profession. The media and the business community were divided in some discussion on these issues. Thus, until the late 1970s it was identified as era of high closure in the accounting profession in Sri Lanka.

Following on these events, various professional tussles and conflicts of interest occurred between 'elite' and 'non-elite' groups regarding practice rights within the profession. For example, around 1963, a significant number of RAs left the accounting practice, mainly due to their secondary status, to become accountants in companies in the private sector or to work in government departments. This exodus and the pressure from the registered group encouraged the ICASL council to act and consequently by 1964 the ICASL administrators had made all the necessary arrangements to amend the 1959 ICASL Act to eliminate the category of RAs. A past president of the ICASL was of the opinion that the exclusion of RAs was an important step in strengthening the accounting profession and ultimately this was an important recognition of the accounting profession by the government (*Ceylon Daily News*, 1964). This kind of exclusion happened in the British accounting profession as well, especially in ACCA at the early stages of their accounting professionalization process.

The elite group (dominated the ICASL council) were able to craft an elite tradition and followed a strategy to create market closure by excluding the non-elite group from the accountancy practice during the period under investigation. The exclusion of RAs from the practice was a great relief for many of the elite council members in the ICASL. This was the first successful event of exclusion of lower social class members (i.e. RAs) from the accountancy profession in Sri Lanka. There were, however, other later episodes in which the elite group again sought to exert dominance by employing exclusionary tactics. Further detail of these will be provided further in this chapter. In the early Canadian accounting association, evidence was found that founders of the accounting associations closed off the profession to the wider community based on nativity, ethnicity, religion and gender.

### ***Committee on the Future Training of Accountants (FTA) in 1972***

The ICASL's contribution to the society, as a national in professional accounting education and training institute was under the close scrutiny of the state in the early 1970s. A state-sponsored committee was appointed in 1972 by the government to investigate the unemployment in the area of higher education, particularly in the areas of business and accounting. This committee was appointed by the government partly as result of the unsuccessful insurrection in April, 1971, against the ruling government (De Silva, 1977).

The committee was called the Committee on Future Training of Accountants (hereafter, FTA), whose main objective was to identify difficulties in existing training arrangements introduced under the ICASL articulated clerk system, and to make recommendations to improve the system. The FTA submitted a comprehensive report, which included several important comments and recommendations: the committee found that the articulated clerk system of training based on the old British model was inadequate to serve local needs and proposed instead a more flexible scheme of training. The FTA recommended in its report that the ICASL should also cooperate with local universities for accreditation of university accounting degrees. The committee was of the opinion that the new scheme of training, apart from increasing the number of accountants, must also satisfy the following special needs of the economy:

1. The need for accountants who can present information lucidly to decision-makers, taking into account the needs of the country in the present context;
2. The need for able Financial Managers and Advisers who can appreciate the problems of the country; and
3. The need for accountants who are imaginative organisers able to undertake the problems of management arising in the overnight creation of large scale undertakings and also small scale decentralised management units (*The Accountant*, 1973: 9)

It was particularly recommended that:

There should be a change in the approach to the subject of education and training of accountants. Accounting should be treated as a control and management function based on collection, analysis and evaluation of information. The approach through auditing alone does not give the student a grasp of the purpose, functions and the nature of accounting.



In the present schemes of lectures and examinations, negligible place is given to the study of accounting systems, procedures and financial management. General understanding of all these aspects should be part of the basic training of accountants: they should not be treated as subjects for specialisation. Specialisation should not be at the expense of the general understanding of the subject. Education for the financial and accounting streams should commence in the schools at the General Certificate of Education (G.C.E) levels (*The Accountant*, 1973:7).

This committee also pointed out that:

Experience under articles is heavily biased towards the legal and statutory audit. This approach does not give adequate recognition to accounting as a control function. Experience is centred generally on the techniques of bookkeeping and preparation of accounts which is no doubt important. But this concentration could result in a warped attitude to the subject on the part of the student (*The Accountant*, 1973: 11).

Having considered the validity of the recommendations of the FTA the ICASL approved them in March 1972. Taking into account the recommendations contained in the FTA report, in 1976 the ICASL introduced a new examination structure (Manoharan, 1974). It is interesting to note here that the reason for this reform was that the ICAEW in Britain had also changed its examination system (The Accountant, 1973; Manoharan, 1974; Briston, 1997; ICAEW, 1997). Due to the fact that ICAEW reformed its training scheme, the ICASL decided to follow suit. This will be explained in the next section.

### ***Amendment to the ICASL Act in 1975 – Revision to training scheme***

In the FTA report, there were some strong recommendations to revise the training scheme offered by the ICASL to enable more potential students to gain training in the area of accounting and auditing. In response to FTA recommendations, the ICASL decided to amend the Act for the second time. In this respect an interviewee's comments about the amendment is useful here:

In its discussion stages some council members had shown their reluctance to amend it. Some had said that this amendment would bring some disadvantage to the profession. The quality of the expert knowledge in profession would be impaired as a result of large scale recruitment to the profession (Interview - 15).

This is again the state's involvement in the accounting profession in Sri Lanka. After a long deliberation and a discussion of the FTA report and its recommendations, the amended Bill was prepared and presented by the Deputy Minister of Trade. In presenting the Bill he stated the main objectives of the amendment. It is also important to note the

minister's comment on an observation made by the opposition of the Parliament (Archival record, 1975):

The dearth of qualified accountants was serious problem facing the country which could not be solved if training continued to remain restricted to practicing firms (Hansard report, 1975).

The FTA recommendation on training arrangements was expected to be a possible solution to the national issue of the lack of professional accountants in the country. In order to realize this, the Bill was passed in August 1975. The legal effect of the main clauses of the amended Bill was as follows:

Clause 2: To provide a new scheme of practical training before a person who passes the qualifying examinations is eligible for membership of the Institute of Chartered Accountants.

Clause 3: To set out certain conditions under which members of Institute may continue to be classified as Fellows or Associates of the Institute as the case may be.

Clause 4: To enlarge the general powers and duties of the Council.

Clause 5: To set out a minimum period of practical training before which member of the institute may practise as an Accountant.

Clause 6: To substitute the expression "Sri Lanka" for the expression "Ceylon".

(The Accountant, 1975: 16)

It is clear that the amendment to the ICASL Act and the reform of the articles training scheme was a direct influence of the ICAEW reforms to its articles system. The ICAEW revised its training scheme to attract more candidates for its examinations in the mid-1970s. The amendment to the ICASL Act created momentum in the country. With the amendment of the Act the ICASL introduced a new examination structure in 1976. As a result the students who wanted to follow chartered examinations were provided with the opportunity to follow it either in English, Sinhalese or Tamil. Also, the ICASL decided to open up a few branches in the central and southern parts of the country to facilitate access for potential students to the ICASL. However it is important to mention some of the criticisms made about the new revision of the ICASL examination system.

One of the criticisms was that this new examination structure and the eventual reduction in the duration of practical training represented nothing more than the ICASL directly following the same changes introduced by the ICAEW (Briston, 1978; ICAEW, 1997).

With these initiatives, the total number of ICASL members increased from 471 in 1970 to 567 by 1980 (ICASL, Annual Report and Accounts, 1980). However, this number remained inadequate to meet local demands, which led to the claim that the ICASL was unable to produce enough accountants to satisfy the needs of the nation (Manpower Planning Review Report, 1980).

### *Negotiations to offer scholarships to the state sector for chartered qualifications*

As a way of cooperation between the ICASL and the state, in the early 1970s the ICASL made agreements with state agencies and some state-owned departments to provide ICASL qualifications (Chartered Accountancy qualifications) to those who worked in the state sector, particularly in SOEs. This need emerged as the SOEs were operating in the country. Consequently, several SOEs made agreements with the ICASL to provide chartered qualifications to those who were released for studies at the ICASL. According to interview evidence (interviewees, 7, 19 and 24) and archival records which reported on committees that had been appointed by the state to provide recommendations show that the government offered scholarships to government officers to gain professional accounting qualifications in the early 1970s. However, the government removed this scholarship scheme later in the 1970s mainly due to the state's policy reforms towards privatization and open economic policies (as discussed in Chapter 4); the ICASL council terminated the scheme for government departments and continued it with a few SOEs. In this respect, one of the interviewees mentioned the following:

State sector was really making use of the CAs up to 1975 and 1976 till this whole system was changed where they liberalise the education process. Because what they did was they gave scholarships to government servants to get the professional qualifications. They went to audit firms and worked as audit clerks and complete the chartered and come back to the state sector. All these professionals really become the CAs. But I think the biggest mistake that they did was - they stopped that scholarship scheme. If those scholarship schemes continued, today we would have had enough number of chartered accountants in the state sector or the corporation sector. But unfortunately they scraped that scheme which I think it is a very unfortunate situation in country. Before that this project worked very well.

I know that so many Auditors General and other finance managers who worked in the government have come from scholarship scheme. This was a very costly mistake. I think the ICASL has really failed in their duties to give some contribution to the State sector. Even they haven't done something with the Universities (Interview - 10).

As discussed in Chapter 4 the newly elected government in 1977, which promoted open economic policy packages, created an environment to curtail or remove the support for the public sector (such as scholarships for accountancy), as their priority was to promote the private sector. Consequently, this government placed particular emphasis on economic development, via development of the private sector and foreign investments.

Thus, at present situation in the ICASL seems that it is operating in isolation without the assistance from the state sector. With respect to this issue, one of the interviewees cited the following:

The government or the policy makers should simply realize the importance of financial managers to the State sector. Actually, both government and the ICASL are also having the responsibility to meet the nation's accounting requirement as nationally responsible authorities. That is the only thing that ICASL has to do to the state sector. There are very important departments such as national Budget and national Planning in the General Treasury which are governed by nonqualified service personnel. Financial circulars are to be issued by the Budget department but there no professionally qualified accountants in those departments. Even financial monitoring is done by the planning officers, and that is why all these problems occur here. To develop our country, there should be proper system to train accountants, at the moment there is no proper coordination between the local professional body and the state sector (Interview -19).

Even though the FTA report highlighted the national accounting manpower requirement, the ICASL focused only on corporate sector accounting requirements; the following interviewee comment on this issue follows:

If you look at our government expenditure components, it is the major component of our GDP. So we have 1.2 million government servants and we have 100 ministries Big Part of our GDP is coming from State sector. I don't think we have enough accounting professionals. On the other hand we have to say first top ten companies or first 20 to 30 top companies which have highest market capitalisation - those companies have number of accountants I know about that but there again, if you take those 20 to 30 companies apart then we have huge amount of SME (Small and Medium Enterprises) sector so to cater to this SME sector and Government sector I don't think we have enough professionals (Interview - 8).

Evidence suggests that the ICASL was not focused on the main accounting issues of the country. For instance, thousands of SMEs were without proper financial guidance in growing their businesses. The ICASL may have argued that those SMEs did not need professionally qualified accountants; however, the above interview suggests that in a developing country, SMEs are the most promising institutions when the total contribution to the GDP is considered. The ICASL council believed that they must follow the

strategies of the ICAEW and seek their advice on decisions they made to the system and the procedures of the institute. This situation can be described as ‘British is the best’ ideology adopted by the local institute - ICASL.

On the other hand, surprising evidence suggests that state-sector bureaucrats did not tend to accept the CAs advice in business decision-making environments. One of the council members commented on this issue as follows:

I would say, the ICASL as the national body of professional accountants, the institute can enter into the State sector only on the consultancy basis such as preparation of budget proposal or may be in the taxation committee. Our members are representing in state Commissions and as chairmen of the SEC, SLASB. In addition members are representing and involving under statutory level too. But only thing is; the State and other State organizations are not bound to accept our advice. This vacuum has arisen in the public sector because the ICASL members are not in the permanent cadre. Because in one hand our members are not encouraged to be in the state sector, and on the on the hand there is no such arrangement from the State sector. So this has become a big barrier due to government recruitment procedure. They have their traditional government accountant recruitment procedure which is not an attractive service to attract ICASL members. So if there is a mechanism to absorb the ICASL members to the system I hope that will solve the problem. But in the present bureaucratic system I don’t think so. So there should be a mechanism and a procedure to recruit the professional accountants (Interview -11).

Due to the politicization of the state sector, bureaucrats did not give value to professional accounting. Consequently, no serious attempts being made by the state sector to recruit professional accountants to government departments or ministries.

#### **6.4.2 The ICASL interaction with the Ceylon Technical College**

The ICASL maintained cooperation with the Ceylon Technical College (CTC) in providing chartered qualifications from its inception. The CTC at Colombo was set up by the colonial government in 1893; accounting education was not given a place in its programs of study for nearly fifty years from its inception. In 1942, the CTC was separated from the Department of Education (Formally Department of Public Instruction) and made a distinct department under the control of the Executive Committee of Education. With this development, the state council approved the recommendations of the Executive Committee of Education, *inter alia* to offer elementary and advanced courses in commerce to enable students to acquire the qualifications expected of book-

keepers and shorthand-typists, as well as the higher qualifications of recognised institutions of secretaries, accountants and auditors (Report of the Commission of Inquiry on Technical Education, 1963). Therefore, the CTC took steps to re-organise the courses and offered certificates and diplomas in accounting. These courses were modelled on similar courses offered in the UK and were conducted in English. These courses were very popular among students who anticipated employment as book-keepers or accounts clerks in government and private organisations.

From the inception of the ICASL in 1959, authorities at the CTC made negotiations and arrangements with the former to gain recognition for holders of the Diploma in Accountancy (DA) and Diploma in Commerce (DC) Certificates which were conducted by the CTC in Sri Lanka. Later, the names of these courses were revised and changed to the Higher National Diploma in Accountancy (HNDA) (English). The CTC's name was changed to the Sri Lanka Institute of Advanced Technical Education (SLIATE) and it was established, by the Parliament Act No. 29 of 1995, and focused on fostering advanced technical education at a post-secondary level; the director general was appointed by the state.

Since the accounting courses at the CTC were designed to be similar to British technical courses, the authorities at CTC were able to convince the ICASL authorities of the quality and the practical nature of its education and training in the HNDA program. As indicated by interviewees (Interviews 10, 15 and 21), it took some time to persuade the ICASL council about the merits of these courses. After a long process of communication and negotiations, HNDA holders were eligible to obtain exemption from the Licentiate Examination of the ICASL. However, those who obtained this qualification (HNDA) in Sinhala or Tamil after 1 July 1995, were required to pass the Business Communication Paper I (which is English proficiency) to complete the Licentiate Examination. All candidates seeking professional membership at the ICASL ought to complete all the professional parts, irrespective of their professional affiliation or qualifications from other institutions.

In the 1970s several subject exemptions were offered by the ICASL for the HNDA and HNDC Certificate holders of Ceylon Technical College. This exemption policy was perpetuated and until 1999 the ICASL offer exemptions to HNDA up to Foundation I and II. The ICASL syllabuses was changed in 2000 and with that change the Certificate in

Accounting and Business-1 (CAB-1) and a few subjects of the CAB-2 were exempted by the ICASL according to 2010 new syllabus subject exemption policies. The CAB-1 and 2 were associated with HNDA and HNDC in a coordinative manner; this may be because accounting as a discipline has been taught in technical colleges by the British since the 1920s. Earlier the ICASL exempted foundation and intermediate levels for HNDA and HNDC. Thus these arrangements were made between the ICASL and the CTC, which could suggest an understanding, and co-operation and conciliation within the professionalization of the accounting profession in Sri Lanka. By investigating the records of the CTC and the ICASL, the researcher found these relationships continued up to 2010 (Annual Report, 2010, CTC (HNDA) Program Review report, 2011: 6).

#### **6.4.3 Exclusion of university accounting graduates - university and profession interactions**

The accounting needs of developing nations differ vastly from those of advanced economies. However, even after gaining independence, the British influence on accounting education and practice continued to thrive in most of these countries through former connections. For example, despite the existence of good quality universities and technical colleges, some of these developing countries continued to follow the traditional system of producing accountants only through professional bodies. Johnson (1973: 283) explains in his seminal work that professional members who follow the British model act as 'modernising elites'. There is evidence that this is quite applicable to the case in Sri Lanka.

It is interesting to note that accounting, business; public administration and commerce degrees offered by Sri Lankan universities were overlooked and never considered by the ICASL from its inception. Despite the fact that the ICASL was set up to improve the status of the profession and to contribute positively to the economic development of the country, an analysis of Sri Lankan professional accounting and particularly the ICASL's role in producing qualified accountants during the last 5 decades, raises serious doubts about the achievement of those objectives. If graduates of local degree programs wished to become professionally qualified accountants, they had no other option but to pass all the ICASL's examinations. It appears that during the period from 1960 to 2010 the ICASL pursued an agenda to close off graduates with the help of elites, by seeking to restrict the supply of qualified

public accounting practitioners. This is an important feature of the closure strategy followed by the ICASL, despite continuous pressure from the state and the university authorities over the period under review. As found in the literature on accountancy professionalization in Chapter 2, similar types of institutional conflicts have occurred in the UK accounting professionalization process, as per Walker's work (Walker and Shackleton, 1995).

Furthermore, there is virtually no properly accredited and coordinated professional accounting education – at least in the sense that a Western observer might expect. For example, although universities produce accounting, commerce, business, public and finance graduates, there is no proper exemption (accreditation through transfer of credits) scheme in place at the ICASL to attract potential people into the accounting profession. Despite the negotiations and agreements in the 1970s, the council of the ICASL purposely neglected such agreements. Thus, most accounting graduates were diverted to non-accounting careers (Perera, 1975; Wijewardena & Yapa, 1998). Over the past 5 decades, the ICASL has produced only about 3915 fully-qualified chartered accountants. This is grossly inadequate for a country with 22 million people. Therefore, it can be argued that ICASL has failed to develop a proper link with the university system to produce adequate accounting professionals in the country in accordance with the emerging economic development process. Further details will be discussed in Chapter 6 about the relationship between university education and the ICASL.

#### **6.4.4 Society of Certified of Management Accountants of Sri Lanka and Association of Accounting Technicians of Sri Lanka**

The Society of Certified Management Accountants Sri Lanka (SCMASL) was set up in 2000, following the model of the Society of Management Accountants of Canada. This important decision was made by responsible local professionals as a substitute for CIMA – UK. Interview evidence confirmed that the decision to set up the SCMASL was due to a lack of concern about cost and management accounting requirements of the country. The founder of the SCMASL was interviewed to find out his views on the accounting professionalization process:



[the setting up of SCMASL] - I think it was a very significant event that took place in the history of the professionalization. This was a very significant event because of this – a lot of outstation students are able to come into profession. In my time we established the AAT which was a second tier professional level and that was under the institute. This becomes a stepping stone to enter into the profession - those who have very low qualification as they are school leavers. Recently, I established the Certified Management Accountants (CMA) in Sri Lanka. Because we need a lot of cost and management accountants also in this country. In the future definitely the CMA will substitute the CIMA in the country (interview -10).

The ICASL was controlling the profession strategically by giving very few subject exemptions to SCMASL courses. The founder member expresses his comments on the accreditation policy of the ICASL:

At the movement we don't have any accreditation from the ICASL but in the future it will be alright - and ICASL may give exemptions to us. Actually after enactment ....one member of ICASL will be a member of the SCMASL council so that problem will be over with the time (Interview - 10).

This interview evidence suggests that the SCMASL had some conflict with the ICASL in seeking accreditation. The founder of SCMASL used to be the president of the ICASL and he had realized the political motives of some of the key figures of the ICASL in relation to the recognition of accounting qualifications of other institutions. The founder of SCMASL mentioned that after a long discussion and negotiations, the ICASL agreed to offer subject exemptions to SCMASL qualifications, similar to those exemptions given to the CTC. This means that the ICASL used negotiation and conciliation strategies to control the profession.

Another development was that in December 1987 the Association of Accounting Technicians of Sri Lanka (AATSL) was established on the initiative of the ICASL in accordance with the guidelines issued by the International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA), and based on the Association of Accounting Technicians of UK (AAT-UK) (AATSL, 2010). The former president of the ICASL stated:

In my time we established the AAT which was a second tier professional level and that was under the institute [ICASL]. This becomes a stepping stone to enter into the profession those who have very low qualification as they are school leavers (Interview - 10).

The AATSL was established due to commitment of the interviewee (who was the founder president of the AAT later). This second tier body was established in order to meet the shortage of accounting and auditing personnel at the middle level in government departments, state corporations, audit firms, industrial organisations and commercial establishments (AATSL, 2010).

The ICASL offered some exemptions to foundation and intermediate levels of its examinations for AATSL qualified persons up to 2010. The discussion on the SCMASL and AATSL indicates that the ICASL maintained some cooperation with these institutions to produce accounting professionals.

#### **6.4.5 The ICASL's collaboration with foreign universities and marginalisation of local universities**

Interestingly, in the recent developments of the ICASL, the ICASL Act was amended in 1998 and it was the third amendment to the Act. No. 23 of 1959. One of the objectives of the Act was to operate a business school and establish a link with foreign universities. Thus section 3A provides the objectives of the institute and among the objectives point (vii) describes that the ICASL is:

- (vii) To organise, finance and maintain schemes for the granting, of diplomas, certificates and other awards to members of the Institute and of other professional bodies and to other persons who fulfil the prescribed conditions (Act of Corporation and Regulation of the ICASL Act. No. 15 1998: 3).

Therefore the ICASL is collaborative arrangements with some foreign universities to provide accountancy qualifications. In 2002 the ICASL developed affiliations with foreign universities (University of Southern Queensland (USQ) – Australia, INSEAD of France and Cranfield University School of Management – UK) to offer post graduate diplomas and Masters Degrees for those who had completed the ICASL examinations. In recent ICASL developments, it seems that in addition to its role of producing Chartered Accountants it has established a Business School and offers Master of Business Administration (MBA) qualifications. In this regard the following comment is useful:

The ICASL is in partnership with the University Southern Queensland (USQ), an international University with a great reputation for distance learning. ICASL is the premier National Accounting Institute, responsible for the education of students, professional development of members and service to the business community in Auditing, Taxation, Financial Management and Business Consultancy. ICASL's MBA program which was launched with only 7 students in 2002 has shown its success in teaching qualities by being able to increase the number of students to 300 over the last few years where more than 250 students have successfully completed their MBA (Sunday Times, 2009 access 10 /05/2010).

The ICASL offers a Master of Project Management (MPM), a Postgraduate Diploma in Business Management (PDBM) and an Executive Diploma in Business and Accounting (EDBA). Interestingly, the ICASL offers these courses in collaboration with foreign universities. It is interesting to note here that the same programs (MBA, MPM, PDBM and EDBA) are conducted by 13 local universities in the country. The tuition fees for these courses within Sri Lanka (locally) would be much cheaper than the tuition fees of foreign universities. This provides evidence of how the ICASL has marginalised and neglected the locally available postgraduate degrees. This practice of marginalisation is similar to that of Trinidad and Tobago's professional accounting project as pointed out by Annisette in 2002.

This suggests that the ICASL seems to be following the same strategies as the ACCA, CIMA and ICAEW in the recent past in seeking the university/profession relationship to expand the membership market share. Interestingly the ICASL apparently does not have any link with Sri Lanka universities. Due to the lack of connections with local universities, the ICASL and the accounting profession received adverse comments in local newspapers during this period. As cited in the editorial of the ICASL's quarterly journal the *Accountant*, 'poor financial administration in the public sector is apparently due to the inaction of the institute for the past 27 years'; 'the rate of output of chartered accountants over the past 27 years has been considered to be negligible'; 'the Institute does not have national programs to turn out accountants to serve the indigenous sectors'. Several other articles pointed out that: 'Has the Accountants' Institute failed to deliver the goods?' and 'Are accountants putting their price up?' (Editorial, 1988). These comments are real criticisms of the performance of the ICASL by various stakeholders regarding its contribution to society.

#### **6.4.6 The ICASL's continuing close relationship with the ICAEW**

Since the inception of the ICASL in 1959, a strong link was created with the ICAEW, as the adviser, curriculum developer, examination evaluator and the moderator of the ICASL's initial accounting professionalization process. As discussed earlier, initially the ICASL brought advisors and technical directors to assist in developing chartered accountancy programs in the country. In fact it started with Folk Lynch correspondence courses and the moderation of examination papers by the British moderators. As revealed in interviews, these advisors and moderators continuously advised the ICASL to use British text books and materials produced by British publishing companies for local students. Those who were able to afford these materials continued to buy them at very high prices. This was a great income for British publishers of such study materials. It is apparent that this practice created a long lasting relationship between the ICASL and the ICAEW. Those who were elected to the ICASL's council continuously supported this practice as it was beneficial for both parties. As a result, the examination structure of the ICAEW and the ICASL was identical for many years. For example, the ICAEW offered its examination structure in three parts namely Intermediate, Final Part I and Part II. The same structure was followed by the ICASL up to about 1976 without any changes.

Interview evidence suggests that domination and control were there since the inception of ICASL; moreover, evidence suggests that at the beginning the ICASL it was just an examination centre for the ICAEW. The following comment from an interviewee indicates this relationship:

At that time, exams were very difficult. So, students wrote to the ICAEW to get their opinion on the standards of exam papers, because the ICAEW was the institution which decided the standard of the papers. Actually, since the inception of the ICASL, imperial inspiration is deeply rooted at the ICASL, all the times. Thus, there was a continuous professional update with the ICAEW.

During the first four or five years after establishing the Institute, the memberships were given to the British qualified accountants. Therefore, this institute totally British oriented institution of its four or five years because all most all the members were British qualified accountants and in later the institute conducted examinations and for qualifying accountants locally (Interview -1).

Moreover, interview evidence suggests that the ICAEW had complete control over the local body as the advisor to the council of the ICASL up to today. Another interviewee explained this situation as follows:

ICASL and ICAEW working very closely - for example even this time (2010) when we revised our syllabuses we sent our syllabuses to the ICAEW for their advice. We wanted them to monitor, supervise and evaluate our syllabuses. We take their suggestions into consideration. In addition, after finalizing our syllabuses, we take technical advice from a member of the ICAEW to assess our syllabuses. We accept their recommendation to uplift the quality of our study programs. When they introduced standards we modify those standards to suit them into the local situation (Interview - 4).

The latest development in this close connection is of signing of the Memorandum of Understanding (MOU) between these two institutions (ICASL and ICAEW) to offer membership (when?). The ICASL has approximately 4000 members and the practitioners have the monopoly to practice in Sri Lanka. However, with this MOU the ICASL has promised to offer that practicing authority to ICAEW members as well. Thus, there has been a perpetuated interest during the last fifty years from both ends, irrespective of indigenous accounting developments.

One member of the council stated that the ICAEW was identified as the parent body of the local body. This suggests that the local institute was seeking advice from the ICAEW throughout their existence:

The ICAEW is our parent body, so all the practices and procedures had come from the ICAEW. Even now for certain matters, we look at what happens in the ICAEW. But we are not doing everything they do. For instance they give exemptions to any degree but we are not doing that (Interview -11).

As mentioned, on one hand, evidence suggests that the ICASL has depended on ICAEW since its inception and kept the local body (ICASL) under its control through dominant ICAEW qualified professionals in the local body. Interestingly, in 2010 when the MOU was signed by the ICASL's President, and the ICAEW's Executive Director, for Learning and Professional Development said that this MOU enabled qualified members of both institutions to join together to obtain non-auditing practising rights.

The following quotes show the interest of the ICAEW and its interest on the link with the ICASL:

President of the ICASL (2010) commented on the landmark event:

Such an agreement [MOU] paves the way for members of both institutes to work around the globe. Each institute has the capability to promote the transfer of skills and knowledge between members of both institutes through study tours, seminars, workshops, conferences and other professional development activities.

The ICAEW President, said:

ICAEW and the ICASL have developed a close working relationship over the years and as a result of this agreement, we look forward to welcoming ICASL members to ICAEW. Removing barriers for professional accountants across markets, through agreements such as this, is an important part of our international strategy. The ICAEW is keen to work in partnership with accountancy bodies across the world to enhance the profession globally (Sunday Times, 2011).

Strategically the ICASL limited its credentials during the last fifty years because it produced only 4000 professional accountants locally. After the operationalization of MOU, there were a lot of professionals available locally because thousands of ICAEW professional accountants had access to local businesses and practice. This is an issue to be researched by future researchers on the accounting profession in Sri Lanka.

The MOU will apply to all appropriately qualified and experienced ICAEW and ICASL members and recognises the value of both qualifications and the Continuous Professional Development (CPD) responsibilities of members. The following comments from the Executive Director, for Learning and Professional Development of the ICAEW are important:

Following this MOU, all appropriately qualified ICASL members will be eligible to apply for ICAEW membership subject to passing the ICAEW's Advanced Stage examinations and completing the ICAEW's Structured Training in Ethics programme. ICAEW's examination centre in Sri Lanka will be located at the British Council building in Colombo.

All ICASL members joining the ICAEW will be eligible for an ICAEW practising certificate on the same basis as ICAEW members. ICASL membership will be open to all appropriately qualified ICAEW members who have obtained Sri Lankan citizenship or have been resident in Sri Lanka for more than three years. ICAEW members joining the ICASL will be eligible for Sri Lankan practising rights (Daily Mirror, 25 October, 2010).

Thus, this MOU provides enough evidence to show that there will be an informal invasion from the British in the future. Moreover, the other interesting issue is that Sri Lanka had an ethnic war for nearly three decades. Having lost many of the resources in the country, including the brain drain of professionals such as accountants (including accounting academics), the war was ended in May 2009. As a result a peaceful

environment was created by the present government within the country and a lot of infrastructure development is presently (2010-11) taking place to attract foreign investment and promote local tourism in the country. As indicated in recent media and newspapers, the government is planning to offer residential status to foreigners, including the British, to stay in Sri Lanka on a temporary basis and contribute to the economic and business development of the country. This appears to be another attractive point to enhance the relationship between the UK and Sri Lankan institutional relationship through MOU.

The ICASL continues its strong connection with the ICAEW. Thus the ICASL welcomes and accepts and embraces any decision that the ICAEW has made during the last fifty years. It is clear that during post-independence, Sri Lanka continued the British model of accounting to render economic gains for British interests. The prioritization of British trained CAs over those locally trained was clearly based on assumptions of the superiority of the European culture that endured after independence (Bush, 2010). As explained earlier, 90 out of the 121 founding members of the ICASL held British qualifications.

In 1963/4, about 15 years after independence, the ICASL recruited a British senior academic as director of studies to coordinate the tutorial programs and lectures to enhance the quality of the examinations conducted by the ICASL (Sivathondan, 2009: 74). He was a fellow of the ICAEW and recommended that Foulks Lynch, a British private tutoring firm, should design and prepare teaching materials for local students as a project funded by the Colombo Plan (Interviewee - 1). This shows how the ICASL followed the ICAEW model in the professionalization of accounting in Sri Lanka.

The ICASL has cooperated with the ICAEW since its inception, and followed the same professionalization process in Sri Lanka. Eager to continue with British traditions of the accounting practice and training, the 'elite accountants' borrowed most of the practices followed by the ICAEW in order to marginalise the non-elite group and to maintain the practicing monopoly of the accounting and auditing profession in Sri Lanka. This practice of continually following the ICAEW model in Sri Lanka created a vacuum in other areas of accountancy; British accounting associations such as CIMA and ACCA were happy to fill the accounting manpower needs during this period. This will be discussed in sub-section 6.3.7.

With respect to the British study materials on accounting and auditing, some interviewees mentioned very important and interesting events, as revealed by this interviewee:

Foulks Lynch produced study materials for UK students and there were 12 sets of lecture notes for each course. The Foulk Lynch was the tutor for accounting students in the UK, and the Sri Lankan accounting students were compelled to buy them for very expensive prices, so some students shared these materials for a number of years. The students had to answer the tutorial questions and send their answers to London for the purpose of marking. The Foulk Lynch Company marked them for a fee and returned them back to students (Interview - 19).

As indicated by the following interviewee, the materials prepared by the British company were very popular:

Those tutorial solutions (model answers) were prepared by Foulks Lynch and sold them to Sri Lankan students. They were called 'Telephones'. There were no any guidelines as to how the students should answer tutorial questions. The text books for accounting courses were imported from Britain. For example for the subject of book-keeping and accounts, students used a text book written by Spicer & Pegler, an accounting firm operating in the Great Britain. For Company Law, ICASL recommended British text books by Brigg and Wilson. They were very expensive books that could have been afforded only by affluent students who appeared for Chartered accounting exams. This indicates how the elites used their tactics to support the British tradition of accounting professionalization and to continue 'British are best' assumptions among locals (Interview - 7).

The ICASL conducted its examinations (intermediate and finals) only in English up to the mid-1970s and this system required the accounting trainees to secure an articulated clerkship as in the UK, pay a premium to the principal and successfully complete five years of study without a salary for non-graduates (three years for graduates). This opportunity was heavily utilised by the children of British-educated elite families with plantations and business interests in the country, as they could afford following this route to become accountants; it also suited their lifestyles (Yapa and Perera, 2005; Yapa, 2006:2010; Balachandran, 2007). Therefore, it is clear that the ICAC followed the ICAEW's footprints during the last five decades to maintain the local profession in Sri Lanka.



#### **6.4.7 The arrangements with British professional accounting bodies - ACCA and CIMA**

Unlike other countries, there appears to be no conflict, rather negotiation, between local bodies (ICASL) and foreign professional bodies (ACCA and CIMA). From the outset, the ACCA and CIMA negotiated and agreed with the ICASL on getting exemption from the ICASL's intermediate/licentiate qualifications. Accordingly, those who have completed first three levels of examination of ACCA or CIMA are eligible to apply for exemption from the ICASL's intermediate examination.

According to this reciprocal understanding and exemption granting process, persons who have passed the final examination of the ACCA are exempted from the whole licentiate examination of the ICASL. Similarly, those who have passed the final examination of the CIMA are exempted from the licentiate examination of the ICASL, except for the Auditing paper in Licentiate Part II. This shows how the ICASL mirrored its professionalization process with British professional accounting institutions over the last fifty years in Sri Lanka.

During the period under study in Sri Lanka, the British professional bodies captured the market share of professional accounting education. Balachandran (2007) provides one example of this:

Outside UK the CIMA's Sri Lanka student population is the largest in the world. And, the CIMA property in Colombo city is the only freehold land and buildings that CIMA owns anywhere in the world which includes UK (Balachandran, 2007: 22).

This environment created an opportunity for British professional accounting bodies such as ACCA and CIMA to market their membership and to maintain their links with\_ the accounting profession in Sri Lanka. By 1980, there are about 250 qualified accountants and about 5,000 student members enrolled in CIMA (Management Accounting, December, 1979:57), and about 150 qualified accountants and nearly 1,500 student members enrolled in the ACCA (ACCA, 2010).

It is interesting to note here that the British professional bodies did not attempt to dominate the accounting profession in Sri Lanka similar to that of the other British colonies such as Trinidad & Tobago (Annisette, 2000) Jamaica (Bakre, 2005, 2006) and Kenya (Sian, 2007). The reason for this non-domination has been, as revealed by interviewees, that the ICASL was very dominant in their practice rights in the Sri Lankan

market. As explained in the next section the practicing monopoly in accounting was considered one of the main elements of this unique professionalization process. This was used as a perfect tool to restrict entry to and enjoy the benefit of the profession. However, as found in Chapter 2, in the UK there have been conflicts among the ICAEW and ACCA and other bodies in obtaining the practicing authority from the ICAEW. The local accounting bodies also have been excluded when ICAEW was involved in the development of the draft of the company legislation in the UK.

The accounting and auditing practitioners are all qualified from the ICASL and in addition, most of the practitioners have obtained their second accounting qualification either from ACCA or CIMA. This is a unique situation in Sri Lanka. For example, out of 25 respondents of this study, 6 of them obtained British accounting qualifications from CIMA or ACCA. Despite the fact that British accounting qualifications do not have the authority to practice in Sri Lanka, many Sri Lankans who gained ACCA or CIMA qualifications obtained ICASL membership through an accreditation process.

## **6.5 Practising monopoly in the profession**

As discussed in Chapter 2, the practicing monopoly is considered one of the main elements of the profession which was used as a tool for enjoying the benefits of restricted entry into the profession by limiting the number of professionals. These types of limitations were found in many studies in Chapter 2 (Sian, 2011; Hammond *et al.*, 2009; Chua and Poullaos, 1998; West, 1996; Macdonald, 1985; Larkin, 1983). According to Walker and Shackleton (1995) this behaviour has been identified as ‘corporate’ bias. The practicing monopoly is one of the unique characteristic of the Sri Lankan accounting professionalization process. The legitimacy afforded to the ICASL provided the power to affect occupational jurisdictions in accounting in Sri Lanka. The British-influenced CAs (elites) sought to defend their status, such as using the titles ‘CA’ ‘ACA’, ‘FCA’ and adopting the British model of professionalization.

The monopoly as a theory generates many facets which can be created in many ways. Patents, copyrights, trademarks and legal monopolies to practice are all examples of government granted and enforced monopolies. Legal monopolies to practice are quite popular in professions; the term “legal monopoly” has been defined as:

State approval of the occupational body is obtained and the right for members to use a particular title. Many bodies have then attempted to attain the top of the scale by securing the passing of an Act which registers the membership and specifies that the occupation's services may only be provided to the public by persons on the register in short, a legal Monopoly (Macdonald, 1985: 543).

As mentioned in Chapter 2, the development and preservation of the professional monopoly of practice has been identified as common factor in the process of professionalization. Primary evidence has been explored by the scholars such as Berlant, (1975), Larson, (1977), Macdonald, (1985), Richardson, (1987); Walker, (1991) in the developed world especially from Britain. It is interesting to note that Caramanis (2005) commented that due to economic liberalization, Greek local auditors were seemingly unsuccessful in reinstating the privileges they had enjoyed during the monopoly of practice.

West (1996) described monopoly as 'State on account of its power and legislative imposed privileges' (West, 1996:89) and Sian (2011) commented on 'state registration or legal sanction or some other means of gathering a professional monopoly' (Sian, 2011:365); these comments are valuable insights into this discussion.

The ICASL had the authority to determine the standards for the registering people entitled to practice as accountants and auditors. Accordingly the ICASL created "a monopoly" over its members' public practice. According to Section 21 of the ICASL Act, legislative power was imposed:

No person who is a member of the institute or a partner of any such firm of accountants as is referred to in sub section (3) of section 22 shall practice as an accountant unless he is the holder of a certificate to practice which is for the time being enforce: provided, however, that such certificate to practise shall not be issued to a member of institute unless such person has had at least period of two years practical training in a firm of practising accountants after he has passed one of the qualifying examinations prescribed by the Council (ICASL Act 1959: 14).

Interestingly, evidence showed that the first council members had been selected from the British qualified members and not a single member was from the CAB. That is how elite professionals used their power to maintain a practising monopoly since the inception of the ICASL.

During the 1970s locally based British-owned firms were the dominant firms in Sri Lanka. Following is interview evidence on the monopoly of practice:

The audits were done directly by the Auditor General's and we were empowered to get the support of the private audit firms as our agents and we control them. Actually the Institute had ignored the State sector. And there was a monopoly of auditing by the leading firms. I become a controversial person to those dominant firms. That is why you see lots of audit firms today. I contributed to develop a report which was called sessional paper, throughout the period that I was in the Treasury, the Auditor General's department and "Agency House Commission". What we were concern was that agency houses were really exploiting the situation (Interview -15).

This interview evidence indicates the continued "Agency House Commission" even after political independence, which encouraged the monopoly and the exploitation caused by the system.

## **6.6 How the ICASL close off the market**

In addition to closure strategies explained earlier in this chapter, the following items can be identified as further actions undertaken by the ICASL to indirectly restrict entry to the accounting and auditing profession in Sri Lanka. Studies have been conducted in Australia examining market closure (Chua and Poullaos, 1993). According to Parkin (1979), social closure was practiced by the status groups, who controlled political power and also developed institutions to maintain their power. An analysis of the ICASL shows that the closure is in line with the middle-range thinking. As it was found in the literature, similar situations have been reported in the UK accounting professionalization process.

### **6.6.1 Tough examinations and high failure rates**

The ICASL restricted entry by enforcing many barriers from the beginning. As this study has already discussed, many occasions, such as tough examinations, non-accreditation, tough training through articles and less training opportunities, hindered professional development within the accounting profession. Consequently, during the last fifty years the ICASL produced only about 3915 professional accountants to meet the needs of 22 million people in an emerging economy, which is considered a very small number

compared with other countries in similar situations such as Malaysia. In self-governing colonies in Canada, Australia and South Africa, colonial associations borrowed heavily from the British model. They applied restrictions at the early stages of their accounting profession, but in the latter stages the profession was not able to control the production of professionals due to state intervention. One of the interviewees commented on this issue as follows:

If accounting body has produced only about 4000 accountants during the last 50 years. The number of accountants is very low compared to our population of about 22 million. It is the responsibility of the institute; it will be a national issue. By imposing the limits to the membership the ICASL has disregard their responsibilities to the nation and towards to economic development. All these things have happened due to the status consciousness of the CAs (Interview - 24).

Table 5.1 presents the last fifty years of membership of the ICASL; it provides the total number of professional accountants who qualified in each decade respectively. In the first decade (1960-1970) there were 239 newly and locally qualified professionals who joined the profession as practicing accountants. In the second decade there were 197 professional accountants who qualified from the ICASL, which shows 42 professional accountants less than in the previous 10 years. In the third decade (1980-1990) there was an increase in membership compared with the previous ten years. Comparatively, remarkable progress was shown in the next ten years (fourth decade) which saw the addition of 1245 professionals into the profession. Data shows that there was significant improvement in membership from 2001 to 2010, and the ICASL produced 1830 qualified professionals. However, as indicated above, this number of accountants is not enough to fulfil the national accounting manpower requirement of the country. Moreover, the national accounting body has not considered cost and management accounting needs of the country. This gap was identified by British professional bodies (CIMA and ACCA) and they continue to provide accounting qualifications to different sectors of the economy.

**Table 6.1 Membership of the ICASL from 1960-2010**

Period	Qualified professionals		Average annual passed finalist	% of annual increase
	Members	10 year progress		
1960	131*	131*		
1970	470	239	24	18.3
1980	567	197	20	4.2
1990	925	358	36	6.3
2000	2170	1245	125	13.5
2010	3915	1745	175	8.1

Source: The ICASL annual reports

\*CAB was replaced by the ICASL in 1959, thus, 31 CAB qualified professionals and 90 British qualified professionals were absorbed by the ICASL.

The main contributing factor for the slow growth of ICASL membership is the high failure rate of the ICASL examinations i.e. starting at intermediate examinations. Mainly due to the difficulty of obtaining local professional qualifications in accounting, many school leavers continued to depend on British professional bodies to acquire professional qualifications. Even today they enrol in large numbers for locally-conducted examinations of several British professional bodies. In order to prepare for these British examinations, they depend mostly on classes conducted by private academies. While a considerable number of these candidates have become qualified accountants, many others who completed only some parts of the examinations have been employed as junior accountants in numerous organizations in the country. It is common knowledge that all these British professional examinations are based on the subject matter applicable to the British economy, which is vastly different from that of Sri Lanka. Thus, a considerable amount of subject matter covered in the above examinations is not useful or relevant to a Sri Lankan accountant. For example, some of the subjects like British taxation and British company law are almost totally irrelevant.

An interviewee commented on the high failure rates of ICASL examinations as follows:

Yes, actually the institute is saying that their students' memberships are around 35000. However, if you look at results of the pass rates, on an average, the ICASL is qualifying only 200 to 300 accountants for a year which really insufficient to the market requirement. I think there is something wrong in the process. So thing is ...if you look at the entry qualification it is the degree qualification in many countries. Degree qualification means it is not only because of subject matters but also maturity is also important to be a professional. I feel that may be the teaching part is really insufficient. Because at the ICASL it's just like a part-time program that they are doing and there are no proper teaching arrangement that has

been organised by the institute. Initially, we needed to have full time study and then bring them into the training. This is something that institute must develop - but the institute has never been successful in delivering lectures to students. I think CIMA is doing very well in that respect (Interview - 10).

Table 6.2 provides examination results from 1960 to 2000; interestingly most of the examination results show very high examination failure rates at each level of examination. According to the data provided in the table, on average about 85 percent of students fail their exams. This is not a healthy situation for students or the ICASL.

**Table 6.2 ICASL examination results from 1960-2000**

Title of examination	Average figures			
	Candidates	Pass	(%)	Fail (%)
1960 – 75				
Intermediate	465	69	15	85
Final Part I	125	26	21	79
Final Part II	75	15	20	80
1976 – 86				
Preliminary	5,100	1122	22	78
Licentiate	1,700	544	32	68
Associate part I	850	279	33	77
Associate Part II	600	108	18	82
1987 – 97				
Licentiate 1	10,200	3570	35	65
Licentiate 2	4250	1275	30	70
Professional Part I	1580	363	23	77
Professional Part II	687	137	20	80
Professional Part III	356	50	14	86
1998 – 2000				
Foundation	11356	2200	19	81
Intermediate	3898	1370	35	65
Final Part I	2076	358	17	83
Final Part II	1230	160	13	87

Source: ICASL Annual Reports, adopted from Yapa (2000; 2006)

The failure rate at the intermediate level exam was particularly high, as indicated in the table. However, since 2000 the ICASL has not disclosed this information in their annual reports or on their website. This suggest that after Yapa's (2000, 2006) investigations on the performance of the ICASL it was subjected to lots of criticism and since then the ICASL strategically stopped disclosing data in relation to annual examination results. However, this study tried to critically analyse the available data in order to come to a conclusion on the ICASL policies and strategies on for the examination process, especially in the most recent eight years (2001-2008).



Table 6.3 provides collected data on the period from 2001 to 2008. This data suggests that there was no difference in the examination failure rate of the ICASL even in the most recent eight years (2001-2008). As indicated in the table, on average the failure rate is around 88 percent at the final stage, which is considered very high rate. As indicated in interviews, the reasons for these high failure rates have never been explained by ICASL. There is no transparency on the reasons for such high failure rates. Some interviewees mentioned that the ICASL purposely maintains high failure rates to show their quality, the tough nature of the ICASL qualifications and also to limit the production of professionally qualified accountants. This evidence was validated with published materials, archival records and the interview discourses.

**Table 6.3 Membership of the ICASL from 2001-2008**

Duration	Qualified professionals on average		Annual increase on average	Passed finalist	Passed finalist as a % of student members	
	Student members at beginning of the year	Annual student increase	Year-end student membership		Based on total students	Based on annual increase
2001	14,887	2839	17726	146	0.82%	5.1%
2002	17726	1236	18962	190	1.0%	15.3%
2003	18962	2232	21194	245	1.15%	10.1%
2004	21194	1724	22918	272	1.18%	15.7%
2005	22918	1397	24315	225	0.93%	16.1%
2006	24315	1620	25935	205	0.79%	12.6%
2007	25935	-593	25342	314	1.23%	
2008	25342	4299	29641	307	1.03%	7.1%

Source: The ICASL annual reports 2001-2008

As shown in Table 5.3, on average the increase of membership was very slow. In 1976 the ICASL made attempts to relax the restrictions to admission to the profession by revising the examination structure and the articles training scheme. This was a historic event in the accounting professionalization process in Sri Lanka, but it did not last long:

The institute had an intention to produce more chartered accountants for example, that is why, it abolished the traditional articled clerkship and changed examination structure..... Because of that there was an increase in the student membership ....and the professional membership. However, after sometimes ....the Institute again applied the tradition of limiting the qualifying number (Interview- 15).

However, according to Briston (1978), the new structure was ‘a rehash of traditional accounting subjects rather than a fundamental reassessment of the subjects in which a qualified accountant should be skilled’. Similarly, even though the ICASL revised its curriculum several times after 1976, the revised curricula were almost identical to the revised curricula of the ICAEW. As such, the curricula adopted by both foreign and local professional bodies for producing local accountants have been subject to criticism that they have not been designed to suit local needs (Briston, 1978).

However, the ICASL did not change tough examination systems and maintained the same practice of conducting the examinations. Moreover, the articled clerk selection process was also left in the hands of the principals of the auditing firms, so they recruited articled clerks based on their personal contacts (See Section 5.3.3).

The following examination results reflect the ICASL’s tough examination procedure:

**Table 6.4 the results of the examinations conducted by the ICASL in 1980.**

<b>Examinations</b>	<b>No. who sat for exams</b>	<b>No. who passed</b>	<b>%</b>	<b>No. who failed</b>	<b>%</b>
Intermediate	21	1	<b>4.7</b>	20	<b>95.3</b>
Final – Part 1	162	23	<b>14.19</b>	139	<b>85.81</b>
Final – Part 2	16	1	<b>6.2</b>	15	<b>93.8</b>
Final Whole	3	0	<b>0</b>	3	<b>100</b>

Source: The Chartered Accountants, Annual Report 1980, Yapa, 2006

Table 5.4 provides results from ICASL examinations in 1980 which was 20 years after its establishment. As revealed in the table, there is a significantly high failure rate. This represents quite a unique performance when compared with Table 4.1 in Chapter 4 for the CAB examination results; this means the ICASL did not change their entry restrictions or examination failure rates in their first 20 years. And also, in addition, there

were weaknesses in the curriculum development and study facilities that were available for students at that time. Nevertheless, this suggests that the ICASL, with its narrowly focussed leaders, maintained closure strategies rather than addressing national accounting needs. These failure rates have been subject to much criticism by the general public and media during the period covered by this study. However, the state authorities or other stakeholders never took any actions against the ICASL. In Ireland at the early stages of professionalization there was a significant decrease in the pass rate, which was considered as restricting entry into the profession.

In the 1980s there was another structural change that took place in the examination process. However, examination results show that those changes did not make much difference. Table 5.5 shows the examination results in 1988.

**Table 6.5 the results of the examinations conducted by the ICASL in 1988**

<b>Examinations</b>	<b>No who sat</b>	<b>No who passed</b>	<b>%</b>	<b>No who failed</b>	<b>%</b>
<b>Licentiate</b>					
Part 1	4259	481	<b>11.29</b>	3573	<b>88.71</b>
Part 2	521	148	<b>28.4</b>	373	<b>71.6</b>
<b>Associate Examination</b>					
Final – Part 1	514	67	<b>13</b>	139	<b>87</b>
Final – Part 2	182	36	<b>19.8</b>	15	<b>80.2</b>

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Source: The Chartered Accountants 1988, cited in Yapa 2006

It is interesting to note that in 1980 the failure rate was 95.3 percent for the licentiate level examination (see Table 5.4). In 1988 (after 8 years) average failure rate of licentiate level examination is  $(88.71+71.6)/2=80\%$  80 per cent. See Table 5.5. This indicates that the improvement of the pass rate is negligible. There were similar failure rates at the final examination levels. For example, the Final part I failure rate was 85.81 per cent and the Final II failure rate was 93.98 per cent in 1980 (see Table 5.4). A comparison was made between 1980 and 1988 examination failure rates (see Table 5.5); it shows that failure rate has slightly reduced in the final level examinations. Therefore, this evidence

provides strong evidence that tough examinations were conducted as a strategy to restrict the membership of the ICASL.

It seems that the FTA report, with suggested recommendations and structural changes, was not implemented by the ICASL; the implementation would have helped create a sustainable accounting professionalization process. Evidence thus suggests that the practising monopoly hindered the development of the accounting profession in Sri Lanka due to the enforcement of restrictions to entry that created accreditation anomalies. For example, over five decades (1959-2010) the ICASL consistently underrated local university education, which would have contributed hugely to the under-development of the accounting profession; they further caused frustration among university graduates due to not recognising their commerce/business/accounting degree qualifications for accreditation.

### **6.6.2 Language barrier**

As British qualified chartered accountants dominated the profession and the council of the ICASL, they wanted to maintain the Sri Lankan accounting profession similar to that of the British accounting profession, using the same strategies of control to secure the accountancy market in Sri Lanka. The institute accepted people with a General Certificate of Education (A/L) who could not attend university degree programs due to low marks, and this opened the way for them to follow a professional course of study in accounting through the ICASL; their examinations were conducted only in English up to 1977. This route required the trainee to secure an articled clerkship, pay a premium to the principal and successfully complete five years of study without a salary for non-graduates (three years for graduates). Therefore, those from privileged backgrounds with an English-language education, namely the children of the British educated elite with plantations and business interests, could afford this route for professional accounting throughout the 1960s.

The national languages in Sri Lanka were Sinhalese and Tamil. Thus the primary, secondary and tertiary language in education was Sinhalese and Tamil except for a few private education institutions which conducted their education in English for the children of elite families. However, from 1959 to the mid-1970s, the ICASL's medium of

instruction for its examinations and lectures was only English. Therefore there was a language barrier for 'ordinary' citizens who had completed their secondary or tertiary education in either Sinhalese or Tamil languages; the avenue was closed for them to become professional accountants, since the ICASL did not offer courses in local languages. Moreover, those who wished to pursue chartered examinations after their tertiary education faced many difficulties as they had to first become proficient in the English language and then to follow the accounting course in English. This was reinforced by an interviewee as follows:

The ICASL provided the necessary support, with the help of British accounting bodies, for those who wished to become Chartered accountants. All such facilities provided by the English educated elite group at the Institute. It was this English educated elite group with plantation associated business interests who were in the forefront of the campaign for setting up of a certain status within the institute. Chartered Accountants also were concerned more with personal gain than with the growth of the national economy ( Interviewee - 4).

This represented an entry restriction for many Sri Lankan citizens until the ICASL started to conduct their courses in both Sinhalese and English in 1976. As suggested in interviews, the English language policy for chartered qualifications was a deliberate move by some of the ICASL council members to maintain their status and prestige in the profession and to close off the accountancy and auditing profession to some sections of society. By doing this the ICASL's intention until about the 1980s was to assist some segments of Sri Lankan society who embraced Western values.

The interviews (1, 7, 12, and 19) also revealed that, during the high period of closure in the ICASL, it was very difficult to find an articleship training position unless the trainee knew a partner of an audit firm. Audit partners selected their potential article trainees through family relationships or students who studied in elite schools or colleges. These institutions conducted their education purely in the English language. An interesting finding is that these schools conducted '*elocution classes*' for students as part of their English language learning exercises – 'learning of Queen's English'. This training related to voice production, pronunciation and enunciation (accent) among students was promoted and inculcated from the 1960s to the 1980s. These schools until about the 1980s were a major attraction for the ICASL to select potential accounting trainees. Most students who completed their university entrance examinations and those who obtained high marks in the examinations were able to enrol in medical or engineering degrees at

universities. Those who were not able to enter a university for a degree program had no option but to enter the accounting and auditing profession by undertaking an articleship through the ICASL. As their high school education carried out in English, they had no difficulty in working in English in auditing firms. According to the social class and value system in Sri Lanka, the most prestigious profession was medicine, then law and finally accounting. However, students who aspired to become a chartered accountant by doing local languages in their high school education were unable to achieve their career aspirations due to the language barrier. These barriers were created by elites to curtail the entry to the profession for certain groups of the society in Sri Lanka.

### **6.6.3 Entry barrier through rigorous training - ‘Articleship’**

One of the strategies followed by the ICASL to maintain the monopoly of practice was to continue with article system of training. This is the same system followed by the ICAEW in the UK. According to a CITE (1963) report, the period of articles was fixed for 3 years for graduates of recognised universities and 5 years for others with certain minimum educational qualifications. The Articled Clerk Scheme restricted principals to four clerks at any time. Until the late 1970s the training arrangement became the major blow to qualify professional members of the ICASL due to several reasons. Firstly there were not enough training vacancies due to the rule of four clerks at time under the Articled Clerk Scheme introduced by ICAEW – UK. This scheme was in operation during the CAB era of accounting and even after the establishment of the ICASL until 1976. That was one of the main reasons that the CAB became inefficient and unproductive in qualifying professionals.

Therefore, the articled clerk system for accountants at that time was discouraging for the average citizen who wanted to enter into the profession, for two main reasons. Firstly, the articles of agreement had to be signed with payment of a premium of at least Rs. 2000 to the principal, to be returned to the articled clerks in instalments of about Rs. 40 per month as opposed to almost ten times that amount received by the apprentices at agency houses without a premium. Interview evidence also presents an important fact about FTA intervention and the article clerk system:

...Articles of Agreement by the payment of a premium of at least Rs. 2000 to the

principal to be returned to the articled clerks in instalments of about Rs. 40 per month as opposed to almost ten times that amount received by the apprentices at agency houses without a premium (Interviewee - 7).

Thus, there was clear evidence that the national body restricted entry. The articled clerk selection process was also left in the hands of the principals of the auditing firms, so they recruited articled clerks based on their personal contacts. This also excludes prospective students.

In fact, this situation also existed in England during the 1960s and 1970s within the ICAEW (Freear, 1982). Secondly, the selection of trainees for training organizations were mainly based on family relationship and family backgrounds; one of the interviewee who was a member of Future Training of Accountants project described his views on training as follows:

I was not happy with the articles training program because I have gone through the article training in UK also - It was too old and it's keeping out people. The whole thing - the article clerk was selected by the relatives or the leading partners and all. So we changed the system and there was a committee on "Future Training of Accountants". Through these projects, we changed the whole scheme of training and changed the structure of exam and syllabuses (Interview - 15).

This interviewee was a member of the first group of candidates who were given the opportunity, with a state-sponsored scholarship, to go to England to obtain their ICAEW qualification. Having completed the ICAEW qualification he returned to Sri Lanka and later became the Auditor General of Sri Lanka. He was very much instrumental in setting up the FTA and according to him it was his 'brain child'. Thirdly as discussed earlier, another interviewee explained the present situation of the training arrangement in the country as follows:

Article training is a big barrier to be a professional accountant but it should not be removed from the professionalization process. Actually, that is the main stay of the accounting profession; the article training scheme develops trainees' skill to improve the professionalism. That knowledge comes from the articles training. However, this training has become a big barrier to be professional due to various reasons such as; inability find place in an audit firm, poor payment during the training period and training is also very tough for them in most of the time. Therefore, there is a long waiting list of accounting students, waiting and straggling to get a training placement at an audit firm. For instance, in our firm there are nearly 70 students have registered with us to take their training but this firm is a very small firm so we are unable to provide training for such a big number? This type of waiting list exists in every firm (Interview - 1).

One of the paramount issues was finding places for article training. As heard in interviews, those who aspired to find articleship training had to be in touch with one of the partners of a practicing firm to find an opportunity to gain placement. Resultantly, often it was relatives who had the opportunity to secure a place in a practicing firm. This issue could be explained as one way of building the elite group in the accounting profession in Sri Lanka. Even today the majority of interviewees disclosed their unsatisfied views on the training arrangements of the ICASL.

Thus, there was clear evidence that the national body restricted the entry of locals to the accounting profession. As an interviewee put it:

In 1973, the strong view was that selection of articled clerks directly by the principals was unsatisfactory, due to the exclusion of capable persons who did not have the necessary contacts and influence to access practicing accountants (Interviewee - 5).

The articled clerk selection process was also left in the hands of the principals (elite-CAs) of auditing firms, who tended to recruit based on personal contacts (mainly from the elite class), and thus excluding prospective students. A similar occurrence was reported in Ireland, which means that training elements have been used as a tool to close the profession to eligible and prospective accounting students. Interestingly, even at the final level students were not allowed to sit final examination until they had completed their full training period.

## **6.7 Summary**

This chapter provides evidence of the establishment of the ICASL which was highly influenced by the British interests and tradition of accounting practice in Sri Lanka. The duties and responsibilities of the CAB were basically replaced by the ICASL in 1959. The ICASL council was composed of ICAEW qualified members to govern the institute. During post-independence, with the continuing British investments in Sri Lanka, the ICASL with the leadership of British qualified 'elite' accountants followed the traditional British system of producing professional accountants in Sri Lanka. At the same time locally qualified accountants were considered second tier accountants; the UK qualified accountants created a class system and maintained the status quo in the accounting profession up to the mid-1970s. This created social stratification which characterized the



elite professionals who represented the upper class, qualified from the ICAEW, from the RAs and local university graduates who largely came from the middle class. Using the power of the elite group, strong closure tactics were employed until the late 1970s in the accounting profession in Sri Lanka.

With the reforms taking place in the society and in the state, the state initiated some directions to reform the structure of the examinations by the ICASL to produce more professionally qualified accountants who were required to address the local accounting manpower shortage in the mid-1970s. There was a major structural change in the profession which opened the floodgates by enabling more students to enrol in the institute to study and also more training opportunities for prospective trainees.

However, these efforts were not been implemented by the ICASL due to fact that the ICASL followed the policies and procedures of the ICAEW. Thus, the ICASL was able to maintain its practicing monopoly throughout the period under review of this study. And, also it is important to understand that the ICASL managed to maintain their self-regulated practicing monopoly until 2010, which has been used as a tool to restrict the profession to a select few professionals. It is interesting to note how the ICASL has acted as an obedient follower of the ICAEW since the inception the ICASL to maintain professional strategies of closing the profession to some segments of the society through various barriers such as entry qualifications, tough examinations, rigorous training and language.

## **Chapter 7: Accounting education, training and cross border competition in Sri Lanka**

### **7.1 Introduction**

In Chapter 6 the local professional accounting body (ICASL) and its maintenance of control over the accounting profession, including closure strategies, have been analysed and discussed. The control of professional accounting education is argued to be one dimension of professionalism and excluding connections with local universities (i.e. excluding the commerce, business administration, public administration and accounting graduates) in Sri Lanka has been a major issue during the period under investigation in this study. This chapter has been constructed to explain how (middle range thinking) skeletal framework approach applied for empirics collected through this study and to understand the nature and processes of the accounting professionalization project in Sri Lanka.

This chapter provides an analysis of empirical data on professional accounting education and the attempts made by the local universities to seek accreditation for commerce, business administration, public administration and accounting degrees through the local accounting body – the ICASL. It highlights the articleship and subsequent training developments in the ICASL, and the development of accounting education in universities over the last 5 decades. This chapter highlights how the ICASL successfully maintained control over higher education, by restricting accounting graduates from the profession over the period under review. In addition, this chapter critically evaluates the British professional accounting bodies and their domination of the supply of professional accounting qualifications to fill the accounting manpower gaps created by the ICASL in the country.

The remainder of this chapter is organized as follows. The next section discusses the accounting education in Sri Lanka. Section 7.3 provides information on the ICASL's

control over accounting education in Sri Lanka. Section 7.4 reviews the ICASL's practical training as a controlling mechanism over accounting training. Section 7.5 analyses the influence of the British professional bodies on the Sri Lankan accounting profession. Section 7.6 summarizes the Chapter.

## **7.2 Accounting education in Sri Lanka 1959 – 2010**

This section discusses the accounting education in Sri Lanka and uncovers how the ICASL, as the national accounting body, liaised (through negotiation, conciliation, conflict posturing, cooperation and confrontation) with other institutions in order to control the professional accounting education. Accounting is a social practice conducted by diverse social actors; therefore, it is worth investigating the professional accounting education and training institutions. Next section devotes to discuss and understand the evolution of the professional accounting education and training.

### **7.2.1 Professional accounting education**

The concept of professionalism has been used as a way of analysing occupational associations within theories of professions. In any conceptualisation of professions, knowledge systems play an important role. Professions are described as “knowledge based” occupations (Torstendahl, 1990), professionals as “carriers of formal knowledge” (Freidson, 1986: 13) and the possession and application of a body of esoteric knowledge is regarded as a fundamental trait of professionalism (De George, 1990; Larson, 1977; Richardson, 1988). Given the universal association of learned professions, with their complex bodies of knowledge, much theorising within the sociology of the professions predicts the development of a close and interactive nexus between professional associations and academia. Abbott (1988), for example, sees such a link as natural and “ineluctable” (p. 195) and, for most professions, a strong profession-university collaboration has been empirically observed through studies on the UK.

Some studies have investigated the accounting profession's control over higher education in the pursuit of professionalization.

Education, interpreted broadly, underpins the competence and expertise manifested in the workplace by members of an occupational association. It services also as a mode of control by an occupational association, underpinning the exercise of professional power in the market for services and it underpins the regulatory bargains struck between occupational associations and the state, as a basis for recognition for forbearance (Birkett & Evans, 2005: 122).

This suggests that the profession is dominated by occupational association through professional education rather than the influence of the state or the tertiary sector. Furthermore, the control of accounting education is argued to be one dimension of professionalism, yet managing this control was a problem for the accounting associations when accounting education shifted to universities and technical colleges (Birkett, 1984; Freidson, 1994; Johnson, 1972). The education and training for ICASL examinations were originally conducted by private tutorial colleges in Sri Lanka. Somewhere in the 1970s the ICASL started correspondence courses for its registered students. These correspondence courses were very similar to the Folk-Lynch education institute correspondence courses in the UK. According to evidence found in the literature on accounting education in Sri Lanka, the ICASL had never made an attempt to seek the cooperation of the university to arrange linking programs to suit their educational needs. This is a unique situation in Sri Lanka compared to other developed and developing countries where most countries (especially the former British colonies) had linking programs with their local universities; these were to set up their educational programs and provide exemptions for university accounting studies so that they were able to utilise the local resources to develop the accounting profession.

In examining the case of Sri Lanka, as revealed in interviews, the fact is that students who were not been able to obtain high marks required for admission into university degree programs, were the ones who normally enrolled with the ICASL for the accounting professional examinations. This suggests that it was mostly 'second grade' students who were attracted to the accounting profession in Sri Lanka (Yapa, 2000). It is noteworthy that students who entered the university accounting degree program with the highest aggregate marks in the commerce stream at the university entrance examination (i.e. General Certificate of Education (GCE - Advanced Level - A/L) and successfully completed a four-year full-time program of study, were not exempted from the examination requirements of the professional accounting body (ICASL). As a result of

this unfortunate situation, some graduates sought non-accounting careers. This suggests that the 'best brains' in the area of accounting education in the country were not sufficiently encouraged or attracted to enter the accounting profession (Yapa, 2000; Wijewardena and Yapa, 1998). As such, the quality of students who aspired to become accountants was low, therefore the adverse effects on the quality of the accounting profession is inevitable.

### **7.2.2 University accounting education**

This chapter pays attention to examining the relationship of the Sri Lankan accounting education and its link to the accounting profession. As discussed in Chapter 3, this chapter uses theory in a practical way, which means the study uses the middle-range thinking approach to analyse university accounting education in Sri Lanka. Thus, it is decided to see the qualitative aspects of the academic education in two different ways. Firstly, the researcher will go through interview evidence from the accounting academics and professionals to find out facts about the nature of the university accounting programs. Since the interviews were conducted among active academics and professional members, the study manages to gain expert opinions on the accounting education and its link to the profession in Sri Lanka. Secondly, the author examines other secondary sources such as curriculum, subject exemptions and the qualifications of academic staff members of each university's academic department which offers accounting and commerce degree qualifications. This section of the chapter is devoted to analysing the empirical evidence of accounting education and accreditation.

A significant development of accounting during the post-independence period was the introduction of commerce education into the school system of Sri Lanka, despite the fact that it was confined only to a few leading assisted schools at the beginning. Book-keeping was one of the courses taught in the commerce classes of these schools. However, the school authorities at that time did not place any importance to these courses. The heads of schools who wished to keep those students who were good at sports in the school found for them a safe refuge in the commerce classes (Commerce Education, 1962). However, by the early 1960s, General Commercial Knowledge, Commercial Arithmetic and Accounting had been added to the curricula of a considerable number of secondary schools in the government sector as well. In order to

provide systematic training to teachers who were engaged in teaching these commerce subjects in schools, a two-year teacher training program was started at the Maharagama Teachers' College (Colombo) in 1960. Over the last two decades, Commerce & Finance and Accountancy have been two of the most popular subjects for university entrance examinations among students in the country. Many students who studied these subjects in schools entered universities and technical colleges every year for furthering their studies in commerce-related disciplines.

In the field of educational development, Sri Lanka currently has about 6 million children in primary and secondary schools; around 433,000 students are taking GCE Ordinary Level (O/L) (Grade 11) examinations and nearly 250,000 students are taking GCE (A/L) examinations, out of which around 150,000 become eligible to enter into universities. However, around 22,000 students are selected for all disciplines of study (such as medicine, engineering, social sciences etc.) by the local universities based on performance in their entrance exam. As it is already explained, accounting is taught in most high schools from Grade 10 to Grade 12 and is a subject for university entrance examinations. Therefore, on average 1/3 of the students are representing the Accounting, Business and Commerce Stream, which means that around 7,000 students enter into the university to follow accounting business or commerce degree programs every year (Department of Examination, Colombo Sri Lanka - 2010).

In recent decades the state has been providing equal educational opportunities in rural areas and various projects have been undertaken to expand and upgrade educational infrastructure. Education is provided free from Grade 1 to university level, and it has been so for the last fifty years. Table 7.1 provides 2010 statistics for secondary education in Sri Lanka.

**Table 7.1 Sri Lankan primary and secondary student intakes and university eligibility and entrance in the year 2010**

<b>Intake</b>	<b>Level</b>	<b>Number of students</b>
Year one	Primary	330000
Year eleven (grade 10)	Secondary (O/L) Sat the exam	433709
Year thirteen (Grade 12)	Secondary (A/L) Sat the exam	233354
University eligible total	All candidates	142415
University selected – for various disciplines		22016
Commerce stream eligible students		42000
Less: Amount entered into universities from Commerce Stream		7000
Eligible students without university entrance		35000

Source: Department of Examination, Colombo, Sri Lanka- 2010

Table 7.1 shows that there were more than 140,000 students who were eligible to enter to universities, however, only 16 percent (22,000) of students get the opportunity to enter university due to limited available capacity. Therefore, university entrance is highly competitive and the selected students are very talented. Those commerce stream students who were not selected (around 35,000) into universities were forced to follow various other courses from other institutions. For examples, some enrolled to follow degree programs in other institutions such as the Open University of Sri Lanka (OUSL) and technical colleges. Some of them, who did accounting as a major in their schools for GCE (A/L), selected to follow Chartered Accountancy as their career path from the ICASL. Some of them selected to study professional accounting at CIMA or ACCA, depending on their finances and preference.

### ***Historical background of the universities in Sri Lanka***

The Sri Lankan university system originated in 1921, with the establishment of the Ceylon University College affiliated with the University of London. This college prepared students for external examinations conducted by the University of London. In 1942, both these colleges were amalgamated and the University of Ceylon was established in 1942 under the Ceylon University Ordinance No. 20 of 1942. However, it did not include commerce as a separate area of concentration in its programs of studies until the beginning of 1960. As pointed out in the Report of the Commission of Inquiry on technical education (CITE) in 1963, before 1960 commerce education at the University of Ceylon was confined only to a few courses offered in the Bachelor of Arts special degree in Economics. In 1960, the Vidyodaya University of Ceylon (present name is Sri Jayewardenepura University which is the centre of excellence for business studies) took further steps in this area by launching two bachelor's degree programs in Business Administration and Public Administration at general and honours levels. Both these programs included a considerable number of accounting subjects. Furthermore, the Bachelor of Arts (Economics) degree program of this university also provided a specialisation in accountancy. The University of Ceylon (Peradeniya – located in the central province of the country) also introduced a program of studies leading to the Bachelor of Commerce degree in 1961. This program included a considerable number of accounting subjects.

According to historical evidence, at the initial stage there was not much attention given to accounting education in Sri Lankan universities. The following interview evidence describes the early years of post-independence accounting development in Sri Lanka:

In the early years of post –independence in Sri Lanka the accounting was a course unit-in economics degree program and business and public administration degree program. There was no demand for accounting at that time. Now we have expanded it and we have come to level of separate degree in accounting. Here we called it ...BSc Accounting (Special) (Interview -10).

The interview evidence indicated that the university has taken appropriate steps to contribute to the accounting manpower over the past years. However, accounting manpower shortages were an emerging issue in Sri Lanka during post-independence. According to the CITE report (1963), there were only 271 financial accountants and 15



cost accountants employed in various organizations in Sri Lanka by 1961. These accounting personnel were working mainly in government institutions and in a few private firms. All of them had obtained their professional accounting qualifications from the UK. As it has been estimated by the CITE, additional requirements of 97 financial accountants and 30 cost accountants had been identified during this period 1962-1970 (CITE, 1963).

During this period, a few British auditing firms such as Turquand and Young, Ford Rhodes, Thornton & Co. and Somerville & Co., opened up their branches in Sri Lanka to continue with private auditing and management services for their clients (Interview, 4). Thereafter, many prospective local accounting students joined these firms as articled clerks or accounts trainees while preparing for their professional examinations. The articleship training is discussed further in a section of this chapter.

#### ***Development of accountancy courses in the Ceylon Technical College***

During post-independence the Ceylon Technical College (CTC) gained momentum in commerce and accountancy education through offering courses at certificate, diploma and professional levels. During the 1950s and the beginning of the 1960s, in response to the needs of the expanding economy, a substantial number of accounting students enrolled in accountancy and other commerce courses offered by the CTC in Colombo. Later these qualifications became prerequisites for chartered accountancy examinations in Sri Lanka. Moreover, there was a tendency of several international bodies such as UNESCO, ILO, and World Bank to support developing nations to upgrade their educational standards through technical expertise, financial aid, scholarships and assistance schemes. Consequently, in addition to the CTC in Colombo, several junior technical colleges were set up in a few more provinces of the country. There was a gradual expansion of technical institutions and accountancy education in the country from 1950 to 1995.

### **7.2.3 Accounting as a comprehensive degree program in university education**

When the universities in Sri Lanka were reorganized in 1972, all the universities came under one central administration. Consequently, each university became a campus of the University of Sri Lanka. One of the significant developments of this reorganization was the rapid expansion of commerce education in the university system. For example, in addition to the Business and Public Administration degree programs, a new Bachelor of Commerce degree program, with an emphasis on accounting subjects, was introduced at the Vidyodaya Campus in 1973. The researcher himself graduated with a B.Com (special) degree from this university in 1991. Subsequently, similar programs were started in other university campuses of Kelaniya, Colombo, Ruhuna and Jaffna (these are provinces in Sri Lanka).

The new government formed by the United National Party in 1977, changed the university structure once again by abolishing the single university concept and renaming the above campuses as separate autonomous universities. As a result of these developments, at the beginning of 1997 commerce-based degree programs in Sri Lankan universities increased to 19 undergraduate degrees, four postgraduate degrees and three diplomas (ICASL-Survey, 1997b). Although accounting was a major component in the curricula of most of these degree programs, a comprehensive accounting degree program was not offered by a single university in Sri Lanka until 1992.

Burrage *et al.* (1990) recognised that shifting knowledge and skill acquisition from professional bodies to universities, was a significant step in the accounting professionalization process (Burrage *et al.*, 1990). Abbott (1988) saw this as intra-profession and inter-professional competition. Amidst these portrays of scholars, the Sri Lankan university system also changed significantly. For instance, in Sri Lanka for the first time in the history of university education, a separate academic department for accounting was set up and a comprehensive four year bachelor's degree program (B.Sc. Accounting) in accounting was started in 1992 by the University of Sri Jayewardenepura (formerly Vidyodaya Campus). It is interesting to note that the university took initiatives to overcome the language barrier in the profession, for example the B.Sc. Accountancy program was conducted in English since the introduction of the degree program in 1992.

A special language centre was started by the university to assist students with low proficiency in English language.

The Degree Program is conducted in the English medium to meet the private sector demand for graduates who could work in English. Hence, by incorporating the requirements of the employment market as its salient features, the B.Sc. Accountancy (Special) Degree Program has challenged the universities' traditional obsession of producing graduates that do not satisfy the needs of the customers. (<http://www.sjp.ac.lk/fmsc/acc/aboutDept/history.html> review date 1 June 2010).

This four year program of study was designed to cover the theoretical and practical aspects of accounting required for a high quality academic and professional degree in accounting. Another important feature of this program was its practical training scheme. For example the workplace experience was given through the practical training component of the curriculum of the degree. Practical training was offered through internships in accounting and finance areas.

Under this scheme, every undergraduate student was required to complete a 60-week program (see Appendix 4) of practical training in a selected organisation as a compulsory requirement in the third and fourth years of the degree program. However, this accounting degree has still not been accredited by the ICASL as a sufficient qualification for meeting the examination requirements of its membership. The other special feature of the B.Sc. Accounting degree program was that the majority of under graduates attempted to obtain professional qualifications such as ICASL, CIMA ACCA while they follow their studies in the university.

As shown in the Appendix – 4, B.Sc. Accounting degree curriculum has been included all the necessary components of a comprehensive accounting degree. The first intake of students for this program was 60. They were the students who had obtained the highest aggregates of marks at the GCE (advanced level) examination in 1992. The annual intake based on the same competitive criterion increased slightly in the following three years followed by a double intake in 1996-97. The first batch of students in this program graduated in 1996. Since 1996, as indicated in Table 7.2, a significant number of accounting students have graduated. However, there is no mechanism to absorb these graduates into the profession through proper accreditation processes between universities

and the profession. This is a severe drawback and a unique situation in the Sri Lankan accounting professionalization process.

**Table 7.2 Annual intakes of students into the B.Sc. (Accounting) degree program**

Year	Number of students	Degree completed	Pass rate % of total intake
1992-1993	60	56	95
1993-1994	69	64	93
1994-1995	85	84	98
1995-1996	87	82	94
1996-1997	268	259	97
1997-1998	133	123	92
1998-1999	143	138	97
1999-2000	150	128	95
2000-2001	306	260	85
2001-2002	134	118	88
2002-2003	160	171	95
2003-2004	175	169	96
2004-2005	176	139	79
2005-2006	157	148	94
2006-2007	172	166	96
2007-2008	187	-	-
2008-2009	172	-	-
2009-2010	187	-	-
<b>Total</b>	<b>2821</b>	<b>2105</b>	<b>75</b>

Source: Department of Accounting and Finance, University of Sri Jayewardenepura, Sri Lanka

When compared with other degree programs in commerce/management studies offered by various universities in Sri Lanka, the B.Sc. Accounting program was more attractive to both students and employers, mainly because of its unique practical training component which provided access to real-world experience in accounting.

The curriculum of this program comprises eleven courses in financial accounting and auditing areas, with four courses in cost and management accounting. Financial management also has an importance place in this curriculum. The next important area is computers and information technology which consists of five courses. Since computers are increasingly used for accounting functions in organizations, the emphasis placed on computing courses seems to make this degree program more relevant to real-world situations.

Another important feature is the inclusion of three courses to cover various aspects of general and strategic management and marketing. Business mathematics and statistics are also incorporated into this program to provide students with the opportunity to learn the analytical techniques necessary for carrying out various accounting functions. Moreover, significant attention has been paid to develop business communication skills of students throughout the program.

During each academic year 60 hours of lectures and 30 hours of tutorials are conducted with occasional workshops and seminars. The practical training scheme is implemented in the third and fourth years during which students have to complete 875 hours of practical training on a full-time basis. Lectures and tutorials are conducted in the evenings during this period of practical training. Final examinations are held at the end of each academic year (Interviews - 7, 12 and 20).

The graduates from this program have been granted exemptions from the ICASL and it is discussed in section 7.3.1 in this chapter. The next section provides an analysis of the local university accounting education and the accreditation arrangement of the professional accounting body.

### **7.3 The ICASL's control over accounting education**

In the recent decade a remarkable development in university accounting education in Sri Lanka was observed. Consequently, in 2010, seven out of thirteen universities (7/13) offered accounting degrees (University Grant Commission, 2010). It was observed from previous studies that there were no proper accreditation arrangements for the commerce and business degrees between the professional body (ICASL) and the university accounting degree programs (Yapa, 1999; 2000). Some archival records (university council minutes and ICASL records) relating to university administration revealed that the university had made several attempts to negotiate with the ICASL to consider potential joint programs between the university and the institute (Interview - 13). However such attempts did not eventuate. As revealed in the interviews, the major reason for this was the lack of interest from some of the academic administrators (such as Deans of Faculties and Heads of Departments); apparently they did not want to pursue the links

due to personal disagreements and some politics between the universities and the profession. For example, as explained by interviewees (Interviewees 9, 16 and 24) among many disagreements on the university degrees the ICASL undermined the degree qualifications by arguing that the degree program curriculums were not up to the expected standards of the ICASL. Also the professionals, including the leading council members of the ICASL, underestimated the English knowledge of the majority of university graduates. The reason for this was that university education was conducted mainly in Sinhala or Tamil. As discussed in Chapter 5, the English language barrier was a stumbling block for many students who wanted to follow an accountancy career. In Canada (1987), Richardson pointed out that market closure failed due to the fact that the profession did not develop a cognitive base. However, in Sri Lanka the profession has been successful so far and the ICASL is still maintaining the cognitive base of professional accounting education and training, despite various threats from the higher education sector. In New Zealand the NZCA was unable to control higher education due to state involvement in the profession. In Australia the state took the authority back from professional institutions (Deegan, 2010). .

To overcome this professional accounting education barrier, universities started to offer more professional oriented degrees in mid 1990s with special attention to professional English courses (called communication courses). However, at the initial stages (mid 1990s) the accounting degree was not recognised by the ICASL. Thus, one of the senior professors commented on the response of the ICASL to the university accounting degrees:

At the very initial stage – somewhere in early 1990s – the ICASL was negatively responded to our accounting. Mainly because practitioners did not recognise the value of university education since they were not graduated from universities and did not like university degrees. So we had to show our capability – what we have done was - we introduced an accounting program for our grandaunts to get into this field – through which they could show their quality and relevance of the study content. Consequently – today it is highly recognised by the profession (Interview - 10).

In respect to these comments it is clear that the university degree was not well recognised by the accounting practitioners. There seems to be some reasons behind the non-recognition of the university degree. As revealed in the interviews (9, 19 and 23), one argument is that the ICASL council members (majority elite group) did not want to accept people from every social strata of the society. The majority of the university

graduates were from different parts of the country including some rural and regional areas. As discussed in Chapter 6 the ICASL has been an elite-based institution since its inception, thus they did not want rural youths to be chartered accountants and mingle with the higher strata (elite class) of society. This was an issue in developed and developing countries in the professionalization project (urban, rural or cross boarders) Chua and Poullaos, 1998: 157) (see Chapter 2). As indicated in the literature review in Chapter 2, similar situations (elite domination) have been reported in many British colonies such as Nigeria, Kenya, Trinidad & Tobago and South Africa. So this is not a unique situation to Sri Lanka.

As discussed in Chapter 5, the 1971 insurrection against the ruling government took place mainly due to pressure that built among educated rural youths due to unemployment issues and pressing social issues including poverty. The rural youths belonged to different social classes, mainly due to the lower socio-economic statuses of their parents and their traditional agricultural backgrounds. These circumstances created a belief within the upper class of the professional accounting community that the majority of the university graduates who entered the university were from lower socio-economic backgrounds and could contribute little to the development of the elite tradition of the corporate accounting landscape in the country. In order to curtail the intake of such individuals into the profession, the ICASL indirectly worked out strategies to resist the accreditation of university accounting degrees mainly to exclude graduates. The second argument is that according to some respondents (Interview 9, 13 and 23) of this study, the ICASL purposely controlled the professional accounting education without allowing universities any control.

Some elites in the profession realised (as per interviews 12, 17 and 22) that if the university attempted to dominate 'the production of producers' (that is professional accounting education) that the ICASL could not sustain the continuation of the professional power and the professional benefits and status that they enjoyed. On one hand, as discussed in Chapter 6, they were concerned about the practice monopoly claim over expert knowledge that the ICASL had been entrusted with. The university involvement in the accounting profession would have created a threatening and severe challenge to those who enjoyed the comforts of professional practice and the flexibility

in recruiting individuals for the profession in accordance with the elite tradition. On the other hand, the ICASL produced its own professional students through its training programs but involvement of the universities and their programs might threaten to uncover what was different to the university degree requirements such challenges might threaten to the status image of the ICASL had created in the past.

It is interesting to note here that in Australia the professional accounting bodies (such as Institute of Chartered Accountants in Australia – ICAA) had similar conflicts with the universities in their early days. For example, a closer relationship between ICAA and the universities was suggested by the state in the 1940s. In these negotiations the ICAA very carefully admitted the students from Melbourne University. Later the University of Queensland also have agreed to work cooperatively with professional bodies. As a result of this development many universities later joined hands with university accounting programs to offer professional accounting qualifications (Birkett and Evens, 2005; Evens, 2003).

The situation in the UK seems to be similar to that of Sri Lanka. For example, accounting bodies, including the ICAEW, had not maintained a close relationship with universities in order to offer courses jointly until about 1950s. - “[n]ot one of six recognised professional bodies requires its trainees to be university graduates” (Annisette and Kirkham, 2007: 2) interestingly, in the ICAEW “a closer alliance between profession – university did begin to emerge in the second half of the 20<sup>th</sup> century” (Annisette and Kirkham, 2007: 2). As time passed the British university system showed remarkable developments in many disciplines including business and accounting (Walker, 1991). Consequently, accounting bodies showed positive responses to university degrees by changing their policies and strategies and starting to offer adequate exemptions to university degrees. Annisette and Kirkham commented on the recent changes that have been taken place in the UK accounting bodies. Out of six<sup>38</sup> main professional accounting bodies in UK, the ICAEW offers accreditations and student membership to university graduates from various other disciplines as well. This was considered as a dramatic

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<sup>38</sup> ICAEW, The Institute of Chartered Accountants of Ireland (ICAI), ACCA, CIMA, The Chartered Institute of Public Finance and Accountancy (CIPFA) and The Institute of Chartered Accountants of Scotland (ICAS).



change in the ICAEW policies (Annisette and Kirkham, 2007). However, since the inception of the ICASL, subject exemptions for university accounting degrees were not allowed in Sri Lanka. One very senior member of the ICASL, who is also a university graduate, commented on the lack of sound relationships between the universities and the ICASL, and the current accreditation procedure:

University students are of very high standard of education in their respective discipline; actually they are the cream of any respective discipline. So what we should do - we must sign a MOU with the universities to attract those students to the profession. University should give some allowances to the ICASL to assess the standard of the university education. Despite the fact that some members tried to implement this - unfortunately we have not developed such relationship so far. Some council members are also reluctant to accept university graduates to the profession (Interview - 4).

This suggests that, the ICASL has not changed its strategy to capture more accounting graduates and accredit university accounting degrees during its fifty years of existence. This indicates that 'elite' council members of the ICASL have undermined the local university degrees and intentionally neglected the connection between university degrees and the chartered qualifications.

As seen in the literature, at the early stages of the accounting profession in Britain (particularly ICAEW), this sort of a peculiar situation existed. Following in the footsteps of the ICAEW, British qualified non-graduate professionals applied the same model to Sri Lanka. They considered themselves superior and continued to protect the profession as though it belonged to a special class. In Chapter 2 the sociology of professions identified this professional social stratum as an elite group. Thus, professional elites used their political power and family backgrounds to restrict entry for university graduates into the profession. Moreover, as mentioned by some of the respondents (Interviewees, 12, 19), elites undermined university graduates, arguing that the latter were trouble makers and belonged to lower social classes. Elites used this assertion as a strategy to restrict entry, by closing off the profession to university graduates. This situation prevails even today (2010).

Therefore, university accounting education was not recognised by the ICASL for accreditation purposes, even though accounting education was conducted in local universities since 1960s. However, interestingly, the ICASL accepts students for

enrolment who are unable to enter into the university due to their GCE (A/L) university entrance examination results. This process is unique when compared with other countries; one interviewee who qualified from the ICASL commented on the non-acceptance of university accounting degrees for accreditation by the ICASL as follows:

Since we were a colony of UK unfortunately or fortunately we had gone through the same path as British body. As you know according to Sri Lankan tertiary education system - once you got through your advanced level qualification you can enrol with the ICASL but it is not the case in Australia, you have to have a first degree to become a CPA or ICAA member. So I think in there good accounting & Finance modules are conducted in the universities for accounting degrees and economics modules as well so the professional bodies accredit and provide exemptions to those degrees having high quality (Interview - 8).

Various discussions have taken place between the university and the ICASL many times on the issue of accreditation of the university commerce / business / accounting degree through the professional body. As discussed in Chapter 6, unfortunately these discussions failed due to the dominating power of the elite accounting professionals who controlled the ICASL. For example, according to the CITE (1963), steps were taken by the ICASL and the University of Sri Lanka to have a joint degree affiliated with professional qualifications for graduates who wished to become accounting professionals. However, there was no progress in the accreditation process. Evidence was provided by the CITE to ensure that responses from the ICASL were also similar to UK's Parker Committee recommendations on joint projects in Britain (CITE, 1963). As explained in Chapter 2, the ICAEW appointed the Parker Committee to present recommendations on the university/profession joint programs. The Parker Committee rejected the joint project on accounting professionalization in Britain. The ICASL followed the same British model in Sri Lanka and neglected the university/profession relationship.

This suggests that the ICASL sought advice from the ICAEW practices in accreditation of university accounting degrees. The local body firmly followed the advice of the ICAEW and did not recognize the university accounting qualifications for accreditation. In contrast, some of the British professional bodies were willing to work closely with local universities. The researcher managed to interview a person of high ranking from the ACCA local division (Sri Lanka) during the interview process, and the following evidence shows this:

I think as the ACCA, local division, we have been trying to develop our relationship with local universities. What we have done so far; for example about 7 years ago we invited all eleven universities to have a discussion on accounting reporting issues. The agenda was how we could help each other and that conversation with ACCA is going on at the moment. Our relationship with the ICASL is very positive and we know the ICASL is the authorised body, so we support them (Interview - 8).

It seems that British professional bodies such as the ACCA were trying to develop close links with universities while university accounting degrees have not been recognized by the ICASL since its inception. The ICAEW, ever since it received the Royal Charter, tried to maintain its status only for their qualifications; it restricted entry for its rivals. Similarly, the ICASL members act as chartered accountancy belongs to limited group (elite group) society and they tried to keep the profession within the elite ideology. Thus, to protect the profession from others, they imposed closure strategies and closed off the profession from the lower strata of society – first they excluded the RAs in 1964 as seen in Chapter 5, and then continued to marginalise accounting graduates from the profession. This suggests that the ICASL could be identified as a blue print of the ICAEW. In the meantime the ACCA has been applying different strategies for its professionalization process. Thus, ACCA's strategy is known as the 'global expansion strategy' and has shown success as a dominant professional body in many parts of the world. In promoting the ACCA qualification, the recent development is to join hands with prestigious universities to affiliate ACCA qualifications with a university degree. The classic example for ACCA joint programs is as follows:

The ACCA with Oxford Brookes University(OBU) for both a top-up undergraduate degree scheme (through with trainees who have successfully completed Parts 1 and 2 of the ACCA's professional examinations can submit a short Research & Analysis Project to obtain a BSc(Hons.) degree in Applied Accounting. There is also an accelerated MBA degree from OBU available to ACCA's members (ACCA, 2010; Wilson, 2011: 7).

This indicates that the ACCA has also entered into the Sri Lanka and joined hands with university sector as a path to expand their accounting market share. This is a common feature embarked on by ACCA in former British colonies such as Africa and Asia. As discussed in Chapter 2, in Trinidad and Tobago, Kenya, Jamaica, Nigeria and Malaysia, it is clear that the ACCA expanded its market share of providing professional accounting qualifications with its global strategy to capture more market in these regions.

As discussed, the first council members of the ICASL were the British qualified elite professionals who set the tradition to mirror the ICAEW. The elite professional group believed that graduates were less proficient in English and were not from elite families. Elite professionals restricted the entry for non-elite accounting students into the profession at that time by using English as an entry barrier into the profession. One needed strong links with the elite professionals 'social connections necessary for acceptance to and progression with in the profession' (Yapa, 2010: 133). The following interview extract is the answer to a question that was asked of an interviewee, who is a member of the ICASL, regarding the accreditation process of the ICASL:

[Accreditation] procedure of the ICASL is not acceptable, because when we were in the university there were no relationship at all with the profession. The ICASL is going in a one direction and the universities are going in a totally different direction. If you take other developed countries degree qualification is a must to become an accountant – once you complete your university education you are eligible to apply for a professional body to become qualified accountant. It is not happening in this country.

I don't see – for example when you study Financial Accounting whether you study it in the university or in the chartered institute - it's all the same. Another example would be – once you study Company Law in the university, you do not need to waste your time to study the same subject again and again because we have only one Companies Act only one Company Law. Another aspect is - even in universities the lectures must have the professional accounting qualification. Since we don't have relationship, once you come out from the university you have to repeat the same subjects in professional education streams. I would say it's a waste of time, waste of money of the younger generation of this country (Interview - 14).

The above evidence suggests that there is no positive relationship in order to accommodate university graduate into the profession. As Birkett and Evans (2005) assert, "control of accounting education is---one dimension of professionalism" (p.121) similarly, the professional body (i.e. ICASL) controls professional accounting education in Sri Lanka by not recognizing university accounting/commerce/finance degrees.

#### ***Attempts by the undergraduates to gain the ICASL qualification***

The ICASL council continually argues that university degrees are not up to standard to be considered for exemptions. Having realised this unfortunate event, some undergraduates tried to gain the ICASL qualification while following a university degree. Mainly due to the lack of recognition by the ICASL for the degrees offered by

universities, the recent trend was for undergraduates (who could afford tuition fees) to follow a four year degree program and attempt to follow the ICASL courses simultaneously; thus they could gain the ICASL qualification just after their graduation from university. Thus, the following interview extract provides evidence that while students are at university they tend to spend their money, time and energy on following the ICASL examinations. Also, they try to complete training components at the same time, and one can imagine how difficult it is for students to fulfil their academic and professional education activities simultaneously:

If you take this university students majority, now we have examination in every 6 months so the University of Sri Jayewardenepura has been very kind enough they have set their exams without a clash with us (ICASL) - but what the students do for three months? They are getting ready for professional examination and the other three - they prepare for the university examination. So they have lost the focus. What is really needed is - you follow the degree and go for profession, but the problem is the students are getting older when they finish university. I think, the main problem in Sri Lanka, we don't have link with the university and the profession. See Chartered Institute of Management Accountants is doing it beautifully. CIMA has negotiated with foreign universities to get the full accreditation to their qualification therefore; there is a huge demand from the local students to do CIMA (Interview - 7).

This interview evidence reveals that many accounting – commerce undergraduates were attempting to complete their ICASL professional qualifications while following their studies at the university. This was a unique situation to Sri Lanka compared to other developing countries, as we found in the literature on accounting education. This unique process of professionalization created unrest among youths who were not financially able to follow both chartered and university courses simultaneously. For example, this situation might have contributed to the J.V.P insurrection in 1971, where youths began to rebel against the state (discussed in the Chapter 4).

Table 7.3 provides a summary of the accreditation procedures of the ICASL, ICAEW and ICAA. According to the ICASL's new syllabus (2010), it provides exemptions up to the first two stages of the examination for accounting degrees ( B.Sc. in Accounting degree), but so far proper recognition has not been granted to business, commerce and finance degrees offered by Sri Lankan universities. This means the ICASL has not changed their policies and strategies as other professional bodies have in other countries. For example, an accounting graduate (B.Sc. Accounting) in Sri Lanka has to complete 16

courses to obtain the full professional qualification from ICASL. However, an accounting graduate (B.Sc. Accounting) in Sri Lanka has to complete only 7 courses to gain an ICAEW (UK) professional qualification. The same Sri Lankan accounting graduate (B.Sc. Accounting) has to do only 6 units to gain ICAA professional qualification from Australia.

Those who have completed business, commerce and finance degrees from Sri Lankan universities have to do 22 courses to gain ICASL professional qualification. However, they have to do fewer courses to gain ICAA or ICAEW professional qualifications, as indicated in Table 7.3. This shows how hard it is to gain the local ICASL professional qualification for a Sri Lankan accounting graduate. This shows the short-sighted view of the ICASL by not granting exemptions to its own local accounting graduates. This is a waste of tax payers' money in Sri Lanka, as the accounting students are wasting their time if they want to complete a bachelor degree and a professional qualification in accounting. Those who follow CIMA have no problems in gaining ICASL qualifications as they have to do fewer courses, as shown in Table 7.3.

**Table 7.3 Comparison of recognition for university accounting and commerce degree qualifications by professional bodies in the UK, Australia and Sri Lanka**

	Name of the Qualification	ICA Sri Lanka	ICA England and Wales	ICA Australia
1	B.Sc. Accounting degree	16 units to be completed	7 units to be completed	6 units to be completed
2	Business/Commerce/Finance degrees	22 units to be completed	7 units to be completed	6 units to be completed
3	CIMA (UK) membership	6 units to be completed	6 units to be completed	6 units to be completed

Source: ICASL new syllabus 2010, ICAEW, 2010 and ICAA, 2010

The ICAEW and the ICAA offer associate memberships for Sri Lankan accounting and commerce degrees, but the ICASL offers neither associate membership nor enough accreditation for business, commerce and accounting degree holders in Sri Lanka

(ICAEW, 2010; ICAA, 2010; ICASL, 2010). Thus, the question is asked: why is the local body (ICASL) reluctant to offer reasonable accreditation for local degrees? To respond to this issue an interviewee mentioned the following:

At the moment there is some relationship [with university] but not sufficient. Now for example, when Professor Y.A.D. Samarathunga- he was the professor of accounting at Peradeniya University and he was a member of both CIMA and the ICASL. During his period the ICASL introduced exemptions to graduates who have graduated under Business, Public and Commerce streams. Those degree holders are exempted from the foundation and intermediate levels of ICASL. – After sometimes that it was withdrawn by the ICASL (Interview -10).

This suggests that the ICASL considered B.Com graduates, who graduated from the University of Peradeniya when Professor Samarathunga was heading the accounting discipline in early 1970s. When the professor was pass away the ICASL stopped offering exemptions to university degrees not only because of those degree qualifications are lower in quality but also because of the ICASL council members did not want to keep close link with the local universities. As heard from the interviewees, Professor Samarathunga was an influential figure among accounting and auditing professionals. He used to be a practitioner and subsequently joined the university as an academic. Later he was able to negotiate with the ICASL, with his personal connections, to consider B.Com graduates from his university and to obtain exceptions from the intermediate examination of the ICASL. This indicates that the non-acceptance of university graduates by the ICASL was partly due to a lack of professionally qualified staff members in the accounting faculties of local universities and partly due to the fact that academically qualified people were reluctant to join the profession. None of the institutions were ready to recognize qualifications from the others, except where there were personal connections. This suggests that universities and the ICASL still mirror the British models. Thus, as Birkett and Evens (2005) observed in the Australian context of professionalism, the professional body in control of the profession through strategies of co-operation, competition and control (Birkett and Evens, 2005).

As explained, seven local universities had accounting department's offering B.Sc. Accounting (Special) degrees. To assess the strength of the seven accounting departments, this study collected data from academic staff statistics of those departments.

Table 7.4 presents the academics that hold professorial positions and PhDs among staff members of the accounting and commerce departments in Sri Lankan universities. It also shows that some accounting departments are strong in their academic qualifications in accounting and others need more qualified academics to produce accounting graduates.

**Table 7.4 Qualifications of accounting academics in each faculty and department (except masters and first degree holders)**

Name of the university	1. Department of Accounting	2. Department of Commerce	Total
<b>1 University of Sri Jayewardenepura</b>			
Professors	4	1	5
PhD holders	3	1	4
<b>2 University of Colombo</b>			
Professors	1	1	2
PhD holders	1	2	3
<b>3 University of Kelaniya</b>			
Professors	-	1	1
PhD holders	3	1	4
<b>4 University of Sabaragamuwa</b>			
Professors	-	-	-
PhD holders	1	1	2
<b>5 Eastern University</b>			
Professors	-	-	-
PhD holders	2	1	3
<b>6 University of Ruhuna</b>			
Professors	-	-	-
PhD holders	3	1	4
<b>7 Rajarata University</b>			
Professors	-	-	-
PhD holders	1	1	2

Sources: Sri Lankan University websites (University of Sri Jayewardenepura, University of Colombo, University of Kelaniya, University of Sabaragamuwa, Eastern University, University of Ruhuna, and Rajarata University).

As shown in the table, there were 5 professors working in the accounting discipline in seven universities in Sri Lanka, and three professors in the area of commerce. There were 14 PhD holders in accounting and finance, and eight PhD holders in commerce.



Compared to the 1960s and 1970s the development of qualified staff in the universities was a great achievement in higher education in accounting and commerce in the country. The ICASL could not argue that university graduate qualifications were low in quality from the academic resources available in the universities.

The adequate numbers of qualified academics in the departments of accounting in local universities were a great opportunity for the local professional body to produce more professional accountants. This way the professional body would have been able to make use of local resources (universities) to obtain quality graduates for the accounting profession in Sri Lanka. However, the available evidence does not suggest that any efforts were made to develop links with the university systems by the ICASL up to 2010. Since mid-1990s the B.Sc. Accounting (Special) degree program at USJ and Bachelor of Business Management (Accountancy) (Special) degree program at University Kelaniya (out of 7 universities) which offer accounting degrees have been recognized for a few course exemptions by the ICASL. These degrees are developed to provide students with a sound general education with a two year practical training component. As Birkett and Evans (2005) pointed out, university and technical college education contributed substantially to the accounting professionalization process:

Higher education was not simply a passive recipient of demands by the professionalizing associations. Instead, it manifested a robust institution which was supported by the state in establishing accounting education within its domain (Birkett and Evans, 2005: 126).

Thus, the recent trend in the world for accounting professionalization is different to what it was the past. For example, major professional bodies have now developed strong links with local universities. Therefore, their entry qualifications are not only degree qualifications from universities but also they develop mutual partnership with local and international accounting bodies to offer membership through accreditation (Annisette and Kirkham, 2007; Gammie and Kirkham, 2008; Wilson, 2011). Wilson (2011) described this as “exhibited innovative alignment”, which means there is a reciprocal relationship between universities and professional bodies for accounting qualifications for accreditation. This was a reciprocal arrangement between the university and the professional body. One interviewee suggested this as a win-win situation, because both institutions consider the demands of the other institution and provide accreditation for

both qualifications. Another interviewee explains his view on the university/profession relationship:

Profession should be a degree base profession in Sri Lanka. We have gone towards that because in countries like America, UK, Australia, and New Zealand and in Europe, these things are happening. The main reason for situation is the ideological difference between the professional thinking and academic thinking. This has been there for a long period - academics were against the professionals. These things should be changed and it has to be a global profession. According to my thinking before you include any subject or unit into curriculum, you have to consider the practical aspect of it. So they must develop better link with the profession (Interview - 13).

In Sri Lanka, as explained before, there was no link between the university and the accounting profession, thus the profession was solely controlled by the professional body which did not recognise university degrees.

Table 7.5 shows changes that have been made in the UK to major professional bodies; it seems those professional bodies and universities now have some form of cooperation. So, on one hand accounting bodies are ready to listen to universities' demands, and on the other hand, universities are ready to offer qualifications of a reasonable standard. However, there are some criticisms about the university/profession relationship; Wilson *et al.* (2009) believed it was "Misplaced opportunism and inappropriate credentialism", because as they argued, an effective practitioner is created in a systematic way, which should consist following major steps:

If the aim of accounting education, training and professional formation is to generate competent, reflective and ethical professionals from (A) properly aligned university education in accounting (B) pre-qualifying professional training in accounting (C) and continuing (i.e. post-qualifying) professional development need to consider carefully how these sequential phases might be best designed as part of an integrated whole in order to produce more effective accounting practitioners in the public interest (Wilson, *et al.*, 2009: 151).

The researcher has some doubts about the above stages of the professionalization process in the Sri Lankan context, because most students who joined the ICASL were school leavers, thus most of them did not have basic degree qualifications. Interestingly, by overlooking local universities and following British latest model, the ICASL's 'innovative alignment' (see Wilson, 2011) has developed the link with a foreign university, allowing those who follow chartered accountancy to acquire an MBA without a bachelor's qualification. It is similar to what foreign professional bodies do at the

moment. Table 7.5 illustrates the British university links with professional accounting bodies.

**Table 7.5 Professional accounting bodies and links with universities**

	Professional body	Connected university/s	Offerings (Credentials)
1	ICA Ireland	University College Dublin	Undergraduate level
2	ACCA	Oxford Brookes University	B.Sc. (Hons) in Applied Accounting
3	CIPFA	University of Warwick	Postgraduate Diploma in Public Finance
4	ICA Scotland	University of Lancaster	Undergraduate degree
5	ICAEW	University of Newcastle	Undergraduate degree
6	CIMA	University of Wales and Deakin University Australia	MBA program

Sources: Adopted from (Wilson, 2011: 7)

Therefore, it seems the ICASL has followed the British tradition of affiliating with the universities to offer qualifications jointly. The ICASL has developed a link with an Australian university, the University of Southern Queensland, to offer an MBA degree qualification. Consequently, those who follow the ICASL chartered qualification can complete their education and gain an MBA degree from an Australian University. These initiatives are being introduced by the ICASL, which is neglecting the local (Sri Lankan) university accounting graduates. However, education experts believe that university degree-based professions are considered to be the best way to become a professional accountant (Freear, 1982; Walker & Shackleton, 1995; Birkett, 1994). The Sri Lankan situation is somewhat different to what is illustrated in Table 7.5 due to the fact that the ICASL have not considered and open avenues to link with local MBAs for its membership offered by the universities. A similar situation was observed by Annisette (2000) in Trinidad and Tobago; she indicated that the Institute of Chartered Accountants of Trinidad and Tobago (ICATT) preferred overseas accounting associations for

accreditation rather than local universities' postgraduate degrees (Annisette, 2000). This shows the similarity of the professional strategies of former British colonies in developing their professional body with the latest move to establish new links.

In some instances, however, there are allegations from the profession also, because some of the universities are rigid and do not want to develop any kind of relationship with the profession. One of the interviewees commented on this issue:

[I]t will happen very soon – it has to be – the reason is – only thing is our thinking has to be changed - as it is - universities think that they are producing graduates and they don't consider this as an investment. University degree should be an investment, after completion of the degree the graduates must be able find employment. That should be the aim – it should be market oriented, so still our academics don't think in that way. I am a council member and also professor here in this department. I am trying to bridge the gap – it's not easy – we have different opinion – one way of thinking is - get the institute to recruit only the graduates - that is one of the issues going on (Interview - 10).

According to the above interview, it seems that both universities and professional bodies have realized the fact that they have to work together sooner or later. For example, countries such as Australia, New Zealand, Singapore and Canada have gained benefits through such cooperation. The next section critically analyses the behaviour of the existing local accounting bodies in Sri Lanka to understand their involvement in the accounting professionalization process.

### **7.3.1 Exemptions policy for university accounting qualifications**

As already identified in the sociology of professions, professional bodies are seen as a means of achieving collective social mobility for market control. It is interesting to note that in the Sri Lankan context, the pre-arrangement of closure, 'Signals of movement' and 'occupational ascendancy' (Carnegie and Edwards, 2001) have been seen within the profession. The ICASL founding council members strategically planned the council composition to consist of only ICAEW qualified members (pre-formation strategy), which could be considered creating an environment to establish closure. Likewise, exclusionary closure was established by the ICASL in many ways since its inception. The classic example of closure can be found in the attempts of the universities to accredit their accounting degree through the ICASL; there has not been a proper accreditation

arrangement introduced by the ICASL for local accounting/business/commerce degree qualifications. Freear (1982) has produced interesting evidence from the ICAEW examination performance of the graduate students and non-graduate students:

From 1965 onwards it has been possible to identify the overall examination performance of the UK graduates undertaking institute's training contracts. The available graduate intake figure shows a rise from 8% of entry into training contract in 1963 to 78% percent in 1980) --demonstrate that UK graduates have an appreciably higher chance of success than those in the non-graduate and overseas graduate category (Freear, 1982: 75 - 80).

This evidence suggests that university education is crucial for a student to perform successfully in professional education with proper training arrangements. However, unfortunately in the Sri Lankan context there is no such arrangement. As Abbott (1988) stated, the lack of such an arrangement in Sri Lanka was due to intra- and inter-professional competition between the university and the ICASL. Therefore, the ICASL's professionalization process seems to be a failure because the ICASL has never attempted to seek the universities' participation in generating accounting professionals. Instead, what the ICASL did was to arrange correspondence courses for its registered students to prepare for their examinations, which were similar to the British system that existed at the beginning of the accounting professionalization process in the UK. In addition, there were some private tuition institutions. Due to a lack of resources such as qualified teachers, the students who prepared for the ICASL examinations did not have proper guidance, which may be one of the reasons for the ICASL's high failure rates. This may have been a deliberate exercise to control the member numbers, as revealed in some of the interviews (Interviewees – 1, 17 and 23). This occurred in the UK's professionalization process after the 1960s, involving ICAEW as a major institution:

The pass rate has been variable throughout the period, although the trend has been downwards, despite the increasing proportion of graduate entrants since the mid- 1960s (Freear, 1982: 77).

Birkett and Evans (2005) provide valuable insight into the control of accounting education by professional associations in the Australian accounting professionalization process. The professional association was dominant until the state intervened and suspended the autonomy of the profession in 1991. Thus it was a critical event for Australian accounting education and the profession, because the state created an

environment to work jointly with universities and the professional body. Therefore, removal of autonomy of the profession and providing facilities for higher education sectors to promote accounting education, curtailed the controlling power of the professional associations (Birkett and Evans, 2005).

The relationship between the academy and emerging professional associations become negotiable and contested, with each party seeking 'control' over education. Often a profession is not willing to cede control to the academy and conflict ensues (Birkett and Evans, 2005: 124).

According to available evidence, in many British colonies (see Trinidad and Tobago, India, Kenya, Fiji, Nigeria and Jamaica) state involvement was the key factor in setting up a national professional accounting body. In Kenya, the national government intervened and reversed the exclusionary closure, and facilitated the entry of Africans into the profession through the introduction of new accountancy education and training programs (Sian, 2007). It has also become a necessity to have such a body to maintain a sustainable financial accounting system to cater to national needs. Interestingly, in many British colonies, after the establishment of a national accounting body, founder members (British qualified locals and British nationalist) ignored the national agenda and tried to maximise their privileges by curtailing qualifying numbers into the profession (Sian, 2011; Uche, 2010; Annisette, 2000; Yapa, 2006, 2010). Thus, to maintain and enjoy the privileges of the profession, the professional body strategically controlled professional. Even though Sri Lanka's university accounting education system provided comprehensive university accounting degrees, the ICASL did not allow universities to by-pass their uni-portal system of entry governed by the ICASL. This situation has continued over the last fifty years in Sri Lanka.

### ***Exemptions provided by the ICASL for local and foreign professional qualifications***

As was already discussed earlier, the university system started in Sri Lanka in 1942 and began to offer commerce courses (major in accounting) through universities in the early 1960s. The government put pressure on the ICASL, through various state commissions (e.g. NEC, CITE and FTA), to consider accounting degrees for part exemptions (such as intermediate, Part I or Part II) of the Chartered Accountancy for university graduates to

enter into accounting profession. However, amidst all such pressure, the ICASL perpetuated its rigid policy and neglected university commerce graduate qualifications, claiming that university degrees were not concerned with practical aspects of accounting and graduates were not proficient in English. Finally the ICASL began to recognise commerce graduate qualifications for exemptions in the 1970s for a short period, as discussed in Section 7.3. After 1977, with the political party change in the government and its new policies on economic liberalization, pressure mounted on the ICASL to offer exemptions for university degrees; thus the ICASL offered a few exemptions (see Table 7.6). However, interestingly it is revealed that the ICASL is still offering a very limited number of subject exemptions, even for accounting degrees. According to available ICASL records, it provides some course exemptions to local and foreign professional qualifications. Table 7.6 compares the peculiar unit exemptions by the ICASL for local university degree qualifications and British qualifications.

**Table 7.6 Exemptions offered by the ICASL for local university degrees, other local qualifications and foreign professional qualifications**

	Name of the qualification	Out of 25 units	
		Offer exemptions for	To be completed for
1	A Graduate who earns B.Sc. Accounting degree from a Sri Lankan university – 1996	9 Units	16 Units
2	A Graduate who earns a business, public, commerce or finance degree from a Sri Lankan university – from 2010	3 Units <sup>39</sup>	22 Units
3.	Those who complete a Diploma in Accountancy from the Sri Lanka Institute of Technical Education SLIATE (DA) – from 2010	3 Units	22 Units
4.	A member of the Association of Accounting Technicians (AAT)	3 Units	22 Units
5.	A member of the Institute of Certified Management Accountants of Sri Lanka (CMASL)	3 Units	22 Units
6.	A member of the Institute of Bankers	3 Units	22 Units
7.	A CIMA (UK) member	17 Units	8 Units
8.	An ACCA Member	17 Units	8 Units

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Source: ICASL 2010, ACCA, 2010

Table 7.6 indicates the accreditation disparity between local university degree qualifications and other local and foreign qualifications. For the B.Sc. Accountancy degree, the ICASL offered 9 subject exemptions from 1996, and for business/commerce/finance degrees, the ICASL offered only 3 subject exemptions

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<sup>39</sup> May consider more subjects from CAB II after further review



(ICASL New syllabus, 2010). It seems the ICASL deliberately attempted to close off the profession for university degree holders by making it hard for local graduates to enter the profession. This created conflict between universities and the profession because the ICASL did not recognize local universities. However, those who qualified from ACCA or CIMA were granted 17 out of 25 units of the ICASL as exemptions. This shows the favour that has been extended to British bodies by the ICASL. In fact, this was the accounting tradition in the UK (Annissette and Kirkham, 2007) and in Australia until the early 2000s (Birkett and Evans, 2005). Consequently, this tradition of professional monopoly became detached from the relationship between the university and profession, thus a conflicting environment was created between the university and professional institutions. Birkett and Evans (2005) described that professional bodies attempted to maintain power through cooperation, competition and conflict.

The Institute of Chartered Accountants in Australia (ICAA's) strategy for control was the ideological stance that its own standard of examinations, dominated by the skill and knowledge required by practicing accountants in the workplace, was superior to standards required by the other institutes (Birkett and Evans, 2005: 138).

However, in Australia, state intervention on education was the major factor in the turnaround of a power shift from the professional associations to academic institutions. Birkett and Evans (2005) described how professional associations used strategies to regain the power through cooperation, competition and conflict:

...[d]escribed how state mediation in education has the potential placing greater power in the hands of academic institutions. Yet two occupational associations of accountants strategically curbed the independence of higher education institutions through strategies of co-operation, competition and conflict. Higher education has been shown as a dynamic institution which is responsive to shifts in government policy and resourcing ...State intervention created places for accounting students in universities and technical colleges (Birkett and Evans, 2005: 139).

In Sri Lanka the ICASL controlled professional accounting education even though universities had made an attempt to negotiate with the ICASL. However, non-graduate elites were opposed to these negotiations and disregarded university accounting education. The following interview evidence provides valuable insight into the exemption policy of the ICASL:

Yes, correct me if I am wrong, basically if you look at the ICAEW and the ICA Australia they take only degree holders to the profession. Especially in ICAEW you can join with a qualification as any degree. It's basically skill base enrolment. In 2010 our curriculum is also based on IFAC accounting education standards. Here the council members reluctant to go for such changes. I ask them "shall we accept science degree as entry qualification" and give some exemption from our foundation level at least. Our council members do not like to give exemptions. Because they are still not shifted their mindset for skill base assessment. So, when I say the ICAEW is doing that, and then they agree to do that. So, if I answer your direct question - yes who is thinking like that. So, majority are not in favour even for management degrees. Unfortunately, very few people have that view. However we give exceptions to the accounting degree holders for foundation level and intermediate level (Interview - 7).

This is an interesting comment by an interviewee who mentions that the council was restricting entry for commerce, finance, business and accounting degree holders into the profession. Even today, for accounting degree qualifications the ICASL exempts only 9 units out of 25, and for commerce, finance and business degrees there is no exact published information about subject exemptions that has been offered by the ICASL. According to the New Syllabus University, the subject exemption description policy of the ICASL (2010) is as follows:

Business Administration, Public Administration and B.Com (Special) degrees from any approved university to be considered for CAB II exemption after further review- (ICASL Exemptions New Syllabus, 2010:31).

This suggests that the ICASL has not evaluated accounting education in local universities to ascertain subject exemptions for each degree; this would be based on the quality and relevance of the subject coverage in each university's degree program.

## **7.4 Practical training as a controlling mechanism of professional accounting education**

As discussed in Chapter 6, the ICASL training became a significant barrier to the accounting professionalization process in Sri Lanka. The ICASL continued articleship until 1977, which was introduced by the British in the 1940s. Even though there were many criticisms of the traditional training systems, the ICASL did not want to change them until 1977, because these training systems were effective mechanisms for controlling accounting education in Sri Lanka (Perera, 1980; Yapa 2000, 2010). How did they do it? They connected accounting education and training together. Students had to

complete a certain amount of hours in an auditing firm to sit any level ICASL examination. This was a big mistake that the professional body made at the beginning, because the ICASL just followed the ICAEW model without paying attention to the ‘capability<sup>40</sup>, and ‘competence<sup>41</sup>, of professional members. In this respect Wilson’s work (2011) is appropriate:

One might argue that primary focus of university education in accounting should be on capability, and the primary focus of professional training should be on ‘competence’, with intended learning outcomes, curricula, and assessment strategies being designed accordingly, in an aligned way. Any attempt to treat these two phases as being equivalent would appear to be both invalid and ill-advised (Wilson, 2011: 6).

As Wilson (2011) argued, accounting education and professional training are two different skills which are not able to develop only from a university education or from a professional association. In 1977, due to high criticisms of their rigorous training, the ICASL changed their training scheme to ‘Practical Training Agreement’, which created more training opportunities to train more accounting students. This restriction on training was relaxed by the ICASL after the economic policy reforms to open market policies which are more favourable to private sector business development. As discussed previously, with the influx of students speaking different languages (Sinhala, Tamil and English), coupled with the open-market policies after the 1980s, the ICASL student numbers increased rapidly for chartered accountancy qualifications. With this unexpected increase of students at the ICASL, there were not enough training opportunities for students. The current situation is that students have to go on a waiting list to obtain training opportunities. One interviewee, who is a partner in an auditing firm, commented on the training barrier as follows:

Article training is a big barrier to be a professional accountant but it should not be removed from the professionalization process. Actually, that is the main stay of the accounting profession; the article training scheme develops trainees’ skill to rectify all errors. That knowledge comes from the article training. However, this training has become big barrier to be a professional due to various reasons such as; students cannot find a place in an audit firm, students are paid very small payment during the training period and training is also very tough for them in most of time. Therefore, there is a long waiting list of accounting students are waiting and straggling to get a training placement at an audit firm. For instance, in our firm there are 70 students who have registered with us to take their training but this firm is a very small firm so we are unable to provide

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<sup>40</sup> Capability comprising the attributes held by individuals, which enable them to perform their roles

<sup>41</sup> Competence reflects an individual’s ability to perform a work role to a defined standard – with reference to the real working environments.

training for such a big number. This type of waiting list exists in every firm (Interview - 1).

This waiting list has become a huge frustration for prospective students who had selected an accounting profession for their career. Thus there was no proper coordination of professional education and training, even though student numbers had increased for chartered accountancy. In other words there was no connection between the ICASL, state and universities. In Australia, accounting institutions cooperated with the state and higher education institutes. Birkett and Evans (2005) explained the cooperation as follows:

The accountancy institutions co-operated with the state and with higher education institutions to maintain a form of control over the location of accounting education. Under the Commonwealth Reconstruction Training Scheme (CRTS), a professional Committee was formed in each state. The purpose of the professional committee was: a) to advise the training authority (University commission or Director of Industrial Training) on refresher courses and special course; b) to advise on suitability of applicants for reconstruction of training; and c) to advise on training institutions and tutors (Birkett and Evans, 2005:128).

In Sri Lanka, even presently the ICASL does not want to cooperate with higher education institutions, except for CTC and British professional bodies. Also, interview evidence suggests that higher education institutions do not respond to the ICASL, due to a difference in attitudes. Therefore as commented by an interviewee, 'due to lack cooperation between the university and other professional accounting education providers; there was a conflict between the university and ICASL which was an opportunity for the ICASL council to control and maintain the training of accountants (interview - 9). Another interviewee commented on the tuff practical training which led students to move away from ICASL to UK professional qualifications:

Yes training is one of the biggest problems to be a chartered accountant. So latest trend is students are moving from the ICASL to CIMA. Because unlike chartered, CIMA has very nice study formwork of examination procedures and students are aware what are the cut off for each exam, so system is very much smooth and transparent so students believe that they can get through the CIMA exams within reasonable effort (Interview - 3).

According to this evidence there was a rapid growth of student enrolments at CIMA in the last two decades in Sri Lanka. This will be discussed in the Section 7.5 of this chapter.

According to the latest statistics, around 7,000 commerce students entered into universities, therefore around 35,000 students (42,000-7,000) have to find alternative means for their tertiary education (see Table 7.1). The ICASL Annual Reports show that around 5,000 students enrol at the ICASL every year, but interestingly there is a similar amount of student cessations recorded every year. Thus, Table 7.7a and 7.7b shows student enrolments and student cessations over the past 20 years (1989-2008). These figures show on average student cessation numbers are higher than new enrolments. Consequently, the average student growth at the ICASL is about 6%, which is very small growth. This analysis suggests that on average, of the 5,000 students who register, only 300 students stay in the profession and 4,700 students leave chartered accountancy every year.

**Table 7.7a The ICASL-registered students and cessations for the period 1989-1998**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Beginning of the year	10348	9726	10907	11708	12605	13657	14450	14553	15599	16155
New registrations	1922	3057	2750	3350	3971	3450	3450	3989	4461	4036
	12270	12793	13657	15058	16576	17107	17900	18542	20060	20151
Less: cessations	2544	1876	1949	2453	2919	2657	3347	2943	3945	2943
Number at the year end	9726	10907	11708	12605	13657	14450	14553	15599	16115	15509
Net increase/decrease	(622)	1181	801	897	1052	793	103	1046	516	1046
As a % based on beginning of the year number	<b>-6.0%</b>	<b>12.1%</b>	<b>7%</b>	<b>7%</b>	<b>8%</b>	<b>5%</b>	<b>0.7%</b>	<b>7%</b>	<b>3%</b>	<b>6%</b>

Source: The ICASL Annual Reports 1989 - 1998

**Table 7.7b The ICASL-registered students and cessations for the period 1999-2008**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Beginning of the year	17527	16197	14887	17726	18962	21194	22918	24315	25935	25342
New registrations	4173	4019	3756	4951	5877	6226	5810	6307	4762	8507
	21700	20216	18643	22677	24839	27420	28728	30622	30697	33849
Less: Cessations	5503	5329	917	3715	3645	4502	4413	4687	5355	4208
Number at the year end	16197	14887	17726	18962	21194	22918	24315	25935	25342	29641
Net increase/decrease	(1330)	(1310)	2839	1236	2232	1724	1397	1620	(598)	4299
As a % based on beginning of the year number	<b>-7.5%</b>	<b>-8%</b>	<b>19%</b>	<b>7%</b>	<b>11.7%</b>	<b>8.1%</b>	<b>5.7%</b>	<b>6.6 %</b>	<b>-2.3%</b>	<b>16%</b>

Source: The ICASL annual reports 1999-2008

As indicated by interview evidence (Interviewees - 7, 12 and 18) one of the main reasons for the large number of student cessations was the lack of training opportunities for students and that opportunities were awarded through family connections and recommendations of senior-accounting professionals who are currently working in the profession. One interviewee commented on the recent training issue:

The ICASL should change the present training arrangement, because present training arrangement does not provide adequate training opportunities to students. So students have to wait for so long to get access to the articles training. So my view is that the training should be done based on the requirement - I mean those who are in the very early stages they should be allowed to get their training from any established accounting department not necessarily from an audit firm. When they come to the final level, they must be trained under a Chartered Accountant and in an Audit Firm (Interview- 12).

Undergraduates had the biggest struggle in finding training opportunities because they were not allowed to work while they were studying full time at university due to rigid attendance regulations imposed by the universities. It is evident that the university and the professional body never attempted to provide conducive environment for undergraduates to follow chartered accountancy qualifications. This was because universities and the ICASL never wanted to create links to cooperate. It is apparent that this tradition was introduced to Sri Lanka by the British. Thus, local elites did not want to

change the traditional British model because it allowed them to easily control the profession. Another interviewee commented on the paucity of training:

That is also one major problem I think. In my time I had to postpone my exams for four years. After I complete my degree I went for a firm to get training. Fortunately those restrictions are not in the process now. But the problem is to find place for training is very limited. When you come to audit firm you need to keep the most senior people with them because they can keep on getting work done by these people. So intake is very limited and non-audit sector training also very limited - because to give training not that easy because of the replacement of exiting staff - it is not an easy task. Therefore non-audit training also does not solve the problem enough. As a result there is lot of frustration among students because we are allowing lots of students to do Chartered Accountancy. Once they finish one or two stages of the chartered they cannot go beyond that point due to unavailability of placement for practical training (Interview - 25).

Therefore, this suggests that practical training has been used as a strategy for the ICASL to control higher education since its inception. In the UK and Australia, the professional bodies also had this control accounting education for many years, however, due to state and university intervention these professional bodies were brought to neutrality and some relaxed their power voluntarily after careful consideration of the quality and the curriculum of the university education. In later years, with the emerging pressure from universities and the general public, the ICASL relaxed their policies and offered exemptions to commerce degree holders from the national universities; thus, finally the university qualifications were recognised by the ICASL for few subjects in the ICASL's foundation level. It is interesting to note that in Sri Lanka the ICASL continued this rigid and limited exemption policy without taking into consideration the developments taking place in the UK or any other developed countries. As the researcher found in the Chapter 2 literature review, this situation is quite different to Canada, New Zealand and Australia. In those countries, an accreditation took place periodically to evaluate the university curriculum on accounting education, and professional accounting bodies jointly accredited university accounting graduate and undergraduate programs. These created a proper link for communicate between the universities and the profession regarding the future challenges faced by the profession. This became a win-win situation for both students and the accounting industry.

## 7.5 Cross border competition

The analysis section of this study shows how British colonial rule had an enduring effect upon the accounting professionalization process both pre and post-independence in Sri Lanka. The chartered accountants who were qualified with British accounting qualifications championed in the establishment of the local ICASL using their connections with the state and Great Britain. The British style of accounting education, articleship training and links to local elite has been highly valued by many Sri Lankans. As a result, the British professional bodies have become the most popular accounting professional bodies in Sri Lanka:

We need to address the issues that we discussed for a better accounting profession. Now everybody knows CIMA is more demanding professions than local profession. The ICASL study process there are lots of barriers. For example I may not tell my children to do chartered rather I may suggest them to do CIMA or ACCA because those professions more popular and more easy to pass the exam. The institute need to break their monopoly and go with global trend. If the ICASL do not change their strategies to popular this qualification, there would be a very less enrolment to do chartered accountancy in the future (Interview - 25).

Another interviewee explained the present situation in Sri Lanka regarding the popularity of British accounting qualifications and the recognition of these in the job market:

If you read the Sunday observer job advertisement page most of the job for ACCA, CIMA and the ICASL. So, students think all the professions recognise equally. And on the other hand students have identified the ICASL is the most difficult examinations to go through compared with the other professional accounting examinations. Because, no one knows the cut-off mark and no one knows acceptance number with in an attempt. When you look at the market situation, organizations prefer to recruit professional qualification holders rather than university degrees. Council members also do not wish to advice for their children to do chartered accountancy, rather they may advice to do CIMA or ACCA. That's why the ICASL has changed the policy to enrol students from the O/L examination but I do not totally agree with that concept or the policy (Interview - 23).

This evidence suggests that British professional bodies are highly competitive within local market. Most of the CIMA qualified professional accountants are demanded by banking, industrial and corporate sectors in Sri Lanka because the national accounting body (ICASL) neglects these sectors which need management accounting; they only produce professional accountants for public practice. Moreover, there is reciprocal arrangement between the ICASL and CIMA in Sri Lanka. For example, those who have qualified with ICASL and CIMA make reciprocal arrangements to gain both (CIMA and



ICASL) qualifications through accreditation arrangements of ICASL and CIMA. Thus, it seems that the national accounting body does not have a wider scope and proper mechanism for its professionalization process. The next section is about the Association of Chartered Certified Accountants in the UK and its performance in Sri Lanka.

### **7.5.1 Association of Chartered Certified Accountants (ACCA-UK)**

According to archival evidence, the ACCA members who worked in Sri Lanka were registered under the CAB's at operation regime from 1941 to 1959. As it was discussed in Chapter 5, in 1959 when the ICASL was established by an Act of Parliament, these professionals were absorbed by the ICASL.

At present the ACCA has secured high professional prestige by the business community, especially in large organizations such as major banks and commercial companies. The ACCA recognition from the Sri Lankan business sector became an excellent support and development opportunity for ACCA students and members. In addition, a significant proportion of ACCA members in Sri Lanka occupy senior positions in commerce, industry and the public sector (ACCA, 2010). A very senior member of the ACCA commented on the ACCA's presence the country:

When we look at our concentration, specifically on the accounting finance and financial reporting, those areas such as the IFRS or the international reporting standards are applied throughout the World. The ACCA is the largest membership in the World. We as the largest professional accounting body in the world look at this overseas membership expansion in a different angle. It is actually for the mutual benefits. Thus our existence here is pretty much different to the competition (Interview – 8).

At present the ACCA has about 6,000 enrolled students and 350 members in Sri Lanka. There is growing interest in ACCA, as there is increased awareness of its presence, its popularity and its well-structured portfolio of qualifications. The interview evidence suggests that the ACCA also become popular among Sri Lankan students; the ACCA local branch is trying to work very closely with universities and other professional bodies. In the last 10 years the ACCA strategy has been to localize their syllabus in order to address the local accounting manpower demands, rather than incorporating UK syllabuses into local examinations (See Susela, 2010; Interview - 8).

In Trinidad and Tobago the ACCA played a dominant role through the local body to standardise accounting practice. Thus, it seems the ACCA is trying to use the same strategy in Sri Lanka to capture the local market in the long run. The relationship between the ACCA with ICASL is quite positive, as indicated by the interviewees. For example, the ICASL exempts its intermediate examination for those who have completed ACCA part I, II and III (Interview - 8). This cooperation from the ICASL has been maintained by the ACCA from the inception of the ICASL. This shows cooperation and coordination between both the British professional body (ACCA) and the ICASL over a long period without any conflicts. This suggests, as argued in Chapter 5, the ability of British professional bodies to negotiate with local accounting bodies to ensure their sustainability and long-term survival. As interview evidence showed in Chapter 5, the ACCA attempted to develop link with universities.

At present, the popularity of the ACCA is mounting because it has held the highest membership in the world. For example, in South East Asia (Singapore, Hong Kong, Malaysia, Brunei and Indonesia) the ACCA has expanded its market extensively. The cooperation between the ACCA and the universities in these countries is strong, and as a result localisations of some courses such as commercial law and taxation have been adopted for local needs. Consequently, local legal cases and commercial cases have been adapted to law courses offered by the ACCA. Similarly, the tax jurisdictions and their practical issues have been included in the curriculum of ACCA's taxation courses (Susela, 2010; Sian, 2010).

From the interviews, (Interviewees -11, 16 and 25) the researcher believes that this trend will take place in Sri Lanka in the near future as a result of the relationship that the ACCA is currently maintaining with the university system in Sri Lanka.

It is common knowledge that all these UK professional examinations, such as the ACCA's, are based on subject matter applicable to the British economy. Since the Sri Lankan economy is very different from the British economy in many ways, a considerable amount of the subject matter covered in those examinations is not relevant or useful to a Sri Lankan accounting practice. For example, some of the subjects like British Taxation and British Company Law are totally irrelevant.

It is interesting to note that many members of the ICASL are also members of the ACCA. For example, 156 ICASL numbers were also members of the ACCA from 2000-2010. One reason for this is the historical link between Sri Lanka and Britain. The other reason seems to be the belief among many Sri Lankans that British accounting qualifications provide them with a particular professional status or recognition. The next section explains the establishment of CIMA in Sri Lanka.

### **7.5.2 Chartered Institute of Management Accountants (CIMA-UK)**

CIMA – Sri Lanka started out as an Associate of the Institute Cost and Works Accountants (ICWA – UK), in 1965. The association was recognized as a branch of UK in 1973 and was granted Division Status in 1988. Throughout the intervening years, the division has grown in parallel with advances in the corporate world. The CIMA has focused on management accounting functions of organizations and provided qualifications for people to become management accountants. It has maintained a high level of activity and has confirmed management accountancy as one of the most respected professions in the country today. Due to the exponential growth of the profession, as shown in Table 7.8, CIMA – Sri Lanka now has nearly 3,000 resident members and more than 15,000 students; they are widely represented in senior management positions in the commerce, banking and finance sectors in the country (CIMA, 2010).

The following statement is quoted from the CIMA magazine (2010), which indicates how popular CIMA was, because it promised occupation among Sri Lankan students and businesses:

CIMA global membership has grown by 23% over last five years - and 20% in Sri Lanka alone. Sri Lanka student members have increased even more impressively, with an impressive growth of 36% over the past five years (CIMA, 2010).

Interview evidence suggests that CIMA is more popular among Sri Lankans because there are no barriers in the CIMA accounting education and examination process; it is said that there is also transparency in CIMA examinations. For example the passing rates and the way the question papers are set seem very clear and a consistent system has been

followed; as a result, students who prepare for CIMA examinations are able plan for them in an organised manner. Moreover, the CIMA does not expect a prospective student to have their training component before they pass the examinations, as the ICASL does. A student must complete 440 hours of training before obtaining membership of the CIMA (ICASL Syllabus, 2010).

According to a study, the CIMA – Sri Lanka student population is the largest in the world outside the UK. The CIMA property is also located in a prime location in Colombo and it is the only freehold land and buildings that CIMA owns anywhere in the world, including the UK (Balachandran, 2007).

CIMA and ACCA are world recognize professional bodies thus those who can afford they definitely do those examinations rather than doing chartered. Because, the day you start to chartered it is very stressful to a student due to weakness of the system, such as no proper guidance from the ICASL, exams are very tough. Moreover it's very hard to find practical training placement. So, our students realize these barriers - thus they do not want to stay in the chartered study process instead they change their path or they shifts to ACCA or CIMA. They say that CIMA and ACCA have very much transparent process with no particle training is necessary (Interview - 25).

During the period under investigation in Sri Lanka, the British professional bodies captured the market share of the professional accounting education. This environment created an opportunity for British professional accounting bodies such as the ACCA and CIMA to market their membership and expand their market share to maintain British interests and links throughout the accounting profession in Sri Lanka.

I think those British elements might be still there. I think these elements are there in even in Australia. It is not because of colonisation. When you look at the CPA and the ICA Australia, their professional work and development have contributed much more than in the UK. Likewise when you look at the perspective of adopting of international financial reporting standards, I would say, the British elements are still with our profession. This happens through British accounting bodies and because of globalization of professional accounting (Interview - 8).

This means the CIMA is the most popular professional accounting body in Sri Lanka. The following statement provides some valuable information with regards to reasons as to why CIMA is popular within the global business community:

In developed economies, member salaries are usually between two and three times the national average salary. But in developing countries such as Malaysia or Sri Lanka, the percentage can be as much as six or seven times over the average earnings. Bonuses are

also featuring as a significant proportion of member remuneration. This accounts for between 8% and 15 % of their salary with the figure rising to 20% in the USA and Hong Kong (CIMA, 2010).

CIMA targets every single financial position in the industry except public practice, so CIMA as a professional body has shown magnificent performance and progress during recent two decades particularly in southeast and south Asian countries (CIMA, 2010).

**Table 7.8 British (CIMA, ACCA) and Sri Lankan (ICASL) qualified accounting professionals in Sri Lanka from 1970-2010**

Year	British qualifications			Sri Lankan
	CIMA	ACCA	CIMA and ACCA	ICASL
<b>1970</b>	256	67	323	470
<b>1980</b>	478	86	564	567
<b>1990</b>	632	102	734	925
<b>2000</b>	836	265	1101	1530
<b>2010</b>	2986	350	3346	3915

Source: CIMA and ACCA Membership records, 1970-2010; ICASL, Annual Reports

As shown in Table 7.8, the ACCA and CIMA have shown much more of a competitive position in the accounting market than the local body (ICASL). The British professional bodies have captured a higher market share in the Sri Lankan accountancy market mainly due to the rigid controlling mechanism of the ICASL, as discussed in an earlier section. The ICASL's higher education control mechanism put potential candidates off the profession, because even some members were disappointed in the elite council members and their strict policies. This suggests that when the ICASL council narrowed its objectives to produce a limited number of practicing members, thousands of students turned to CIMA and ACCA examinations; they realised that the local chartered accountancy examination was very difficult to pass (Interview – 18). Yapa (2006) also commented on the ICASL's inadequate performance as the national accounting body.

The ICASL's rigid and strict control on education, and its closing off of public practice and maintaining the status quo with limited professionals, created a fertile ground for rival professional bodies (CIMA and ACCA) to attract more and more students to follow

their examinations. So, as a result CIMA and ACCA have become popular professional bodies in Sri Lanka.

Consequently, even though the ICASL is the national body that is meant to address the professional accounting manpower requirements of the country, during the last 30 years, CIMA and ACCA have shown remarkable and consistent growth in producing professional accountants locally. This suggests that the Sri Lankan local body has provided half the professional accountant manpower requirements, because interview evidence suggests (Interviews 14 and 19) that according to the 2010 economic development plans, the country needs at least 10,000 professional accountants to meet the demands of the nation. However, as mentioned above, thus far the ICASL has produced only 3,915 professional accountants; out of these numbers around 1,100 professionals have left the country for overseas employment (ICASL, 2010). Therefore there is a shortage of more than 7,000 professional accountants to meet the country's demands (ICASL, 2010). Interestingly British accounting bodies (CIMA and ACCA) are well prepared to produce professional accountants to meet these local demands (Interview - 18).

**Table 7.9 Per capita ratio of ICASL members in Sri Lanka**

<b>Year</b>	<b>Population in 000s</b>	<b>Resident members</b>	<b>Resident members per million people</b>
1970	11385	204	18
1980	14020	509	36
1990	17000	821	47
1991	17200	894	52
1992	17400	895	51
1993	17600	970	55
1994	17900	1038	58
1995	18000	1054	59
1996	18300	1162	63
1997	18552	1235	67
1998	18778	1297	68
1999	18985	1468	77
2000	19238	1570	81
2001	18410	1700	92
2002	19576	1813	93
2003	19742	2129	108
2004	19905	2248	112
2005	20008	2411	120
2006	20222	2540	125
2007	20926	2517	120
2008	21128	2668	126
2009	21324	2651	124
2010	21026	2937	140

Source: Central Bank Annual Report 1994 and Annual report of ICASL 1990 to 2010; Yapa, 2006

Table 7.9 shows the number of ICASL members per million people in Sri Lanka from 1970 to 2010. These statistics suggest that the average members per million people are around 140 professional accountants who engage in professional work in Sri Lanka. In Australia (see Table 7.10), however, there are around 8,800 professional accountants per million people. In Malaysia (see Table 7.10) there are around 500 professional

accountants per million people. These statistics suggests that in Sri Lanka the ICASL has done very little to address the national accounting manpower shortages.

**Table 7.10 Per capita ratio of professional accounting members in Sri Lanka, Australia and Malaysia**

Country	Population in 000s	Professional accountants	Resident members per million people
Sri Lanka	21026	3915	186
Australia(CA and CPA in Australia)	22912	202000	8820
Malaysia (MACPA and MIA in Malaysia)	28960	14000	482

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Sources: ICASL, 2010; CPA Australia, 2010; Susela, 2010

***The ICASL negotiations with CIMA and ACCA***

The ICASL offer 19 subject exemptions to CIMA or ACCA to complete the ICASL membership. Therefore, what can local students do at present? Students tend to first complete a CIMA or ACCA examination and apply for exemptions from some ICASL subjects. This has become a reciprocal arrangement between these three professional bodies (ICASL, CIMA and ACCA). For example, CIMA offers exemptions for ICASL qualified members. It was stated that the ICASL members have to complete only strategic level examination papers and final case studies to acquire CIMA membership (CIMA, 2009). ACCA offers a similar amount of subject exemptions to the ICASL, and all three organizations cooperated fully in the exemptions policies:

This offer, which is in recognition of the reciprocal exemption arrangement between CIMA and ICASL, offers free exemptions for 11 examination papers to ICASL members and passed finalists whereby they only have to take the Strategic Level papers and the TOP CIMA case study to qualify. Over the years a large number of ICASL members and passed finalists have registered with CIMA via this specially designed accelerated route



and have enhanced their career progression ([www.thesundayleader.lk/2009/11/29-CIMA](http://www.thesundayleader.lk/2009/11/29-CIMA), 2009 Accessed 21/05/2011).

This negotiation among professional bodies will expand CIMA and ACCA membership numbers and bypass ICASL membership numbers in the near future. Moreover, interview evidence suggests that CIMA and ACCA have joined hands with local universities to offer exemptions to university degrees. According to the Sunday Times newspaper article which was published on 17<sup>th</sup> October, 2010, the ACCA provides exemptions for the accounting degree from the University of Sri Jayewardenepura:

ACCA (the Association of Chartered Certified Accountants), UK, the largest and fastest growing global professional accountancy body, offers exemptions in 9 out of 14 subjects to the students who have completed the B.Sc. Accounting (Special) Degree at the University of Sri Jayewardenepura, which is the first academic degree in accounting offered in the university system in Sri Lanka. This positions the graduates of B.Sc. Accounting (Special) Degree programme to complete only five subjects of the final stage of ACCA examinations to obtain the full ACCA qualification. This is the highest level of exemptions received by an accounting degree programme of a Sri Lankan university from ACCA (Sunday Times, 17th October, 2010).

This means that as discussed, the ACCA and CIMA are strategically trying to acquire control and domination of the professional accounting education of the country; for now, however, the ICASL holds the control.

Thus the ICASL closure has secured control over accounting education, but the CIMA and ACCA are crossing the border without any control from the ICASL or the state. This may have occurred because of British sentiment and enthusiasm of the local body. However, it is interesting to note that only 50% of the local requirements for professional accountant manpower have been supplied by the British professional accounting bodies; thus in the long run these British bodies may conquer the local market and acquire the full control of the profession. As the researcher found in the literature in Chapter 2, this situation is similar to T&T and Jamaica in the African region. As evidence indicated, the ACCA has dominated the professional accountancy market, marginalizing the local accounting programs conducted by local accounting associations. Similar trends have occurred in some of the South East Asian countries as well.

## 7.6 Summary

This Chapter analysed the last fifty years of professional accounting education and the accreditation process, focusing specifically on the university and the profession accreditation process, including the British professional qualifications. The closure theory was used by taking insights from critical perspectives under the grand theory of the sociology of professions in order to explain the accounting professionalization process in the post-colonial era in Sri Lanka (1959-2010). As explained, during the colonial regime, the accounting profession was dominated by British professionals and British qualified locals who served the British interests; they looked after British-owned mercantile companies and maintained the British tradition.

After independence in British colonies, the accounting professionalization processes provided evidence that privileged groups dominated the accounting profession and enjoyed certain benefits by demarcating boundaries of the profession and blocking entry through restrictions. Their domination has involved the adoption of various closure strategies intended to restrict entry into the profession for university graduates.

This chapter provides a detailed discussion by analysing both empirical and archival data on professional accounting education and the attempts made by local universities to seek accreditation of commerce/business/finance/accounting degrees through the local accounting body – ICASL. It highlights the articleship training and the subsequent training developments of the ICASL, and the development of accounting education in universities over the last fifty years.

This chapter also highlights how the ICASL successfully maintained control over higher education by restricting the number of accounting graduates into the accounting profession over the period under review in this study. In addition, the chapter critically evaluates the British professional accounting bodies (CIMA, ACCA) and their effective strategies for supplying professional accounting qualifications to fill the accounting manpower gap in the market created by the ICASL. By doing so the ICASL managed to control accounting education through negotiation, conciliation, conflict and confrontation with the academic and other professional institutions, as well as the political and social authorities.

The country's requirement of accounting services both in corporate and state sectors have been ignored by the ICASL's resistance to university education for accountants; this approach is patterned on the British model. However, at present there is momentum in accounting professionalization processes in countries such as the UK, Australia and New Zealand, and their professional bodies effectively cooperation with higher education institutions and the state in order to achieve the goals of the professional accounting institutions.

## **Chapter 8: Discussion of findings, limitations, contribution, future research and conclusion.**

### **8.1 Introduction**

This thesis has planned to provide a thorough understanding of the development of the accounting profession in Sri Lanka during the last fifty years (1959-2010). This research is also considered important for its potential contribution to the existing gap in literature on accounting professionalization processes in two interwoven literature. (Firstly, Sri Lanka, as an ex-colony of Britain and as a developing economy, is considered in this research, which adds new literature to the growing body of research on the different paths that accounting has taken (Willmott, 1986; Kedslie, 1990; Walker, 1991, 1995; Annisette, 2000; Bakre, 2005, 2006, 2008, 2010; Sian 2006 and 2007, 2010, 2011; Yapa, 1999); Sri Lanka is unique when compared with other professional accounting paths.

Secondly, this research examines the professionalization process in Sri Lanka, which was considered to be one of exclusionary closure following the British interest within the accounting profession during post-independence up to 2010. Early studies of the emergence of the accounting profession focused on established professional bodies in developed countries (Willmott, 1986; Chua and Poullaos, 1993; Walker, 2004). Recent work has focused on the evolving place of the accounting profession within developing and post-colonial settings (Annisette, 1999; 2000; 2010; Bakre, 2005, 2006, 2010 Sian, 2006; Yapa, 1999, 2006, 2010). Apart from this, historical studies on accounting associations around the world have found unique strategies that are followed by accounting bodies to apply closure in different forms (Walker and Shackleton, 1998; Macdonald, 1985; Lee, 1990). To analyse the professionalization projects of accountants, some researchers have drawn explicitly on the critical perspective of Marx (Armstrong, 1985, 1987; Johnson, 1972, 1980) and Foucault (Loft, 1986), and also on work from the neo-Weberian theory of market closure (Chua and Poullaos, 1993, 1998, 2002; Lee, 1990; Macdonald, 1984, 1985, 1989; Neu and Wright, 1992; Richardson, 1987, 1992; Walker, 1991, 1995; Yapa, 2006, 2010). Despite such contributions having been made elsewhere to the literature on accountancy professions, little research has been conducted into these

areas in Sri Lanka.

As mentioned in the previous chapters, the strong link between Sri Lanka and the UK accounting profession was perpetuated before and after political independence. Thus, this study has produced empirical evidence to enhance the current understanding on the process of professionalization in three ways. First, this study explained the development of the Sri Lankan accounting profession through the local professional body – ICASL. Second, an attempt has been made to enhance the current understanding of the British influence on the ICASL, and its closure strategies used to benefit the upper classes during the professionalization process. Finally, this study paid special attention to the accounting education and cross-border competition between the local accounting body and the British professional accounting bodies (such as ACCA and CIMA) and their stronghold in the local market. As stated in the chapter 1 (see page 9), following research questions were used to identify the research gap in the Sri Lankan accounting professionalization process:

**Main question:**

What is and what has been the nature and extent of the professional straggles, maintenance of controls, conflicts and interactions between professional groups and the influence of Britain on the professionalization of accounting in Sri Lanka?

**Sub questions:**

What was the nature and extent of the institutional influence of British-based professional accountancy bodies (ACCA, CIMA) on the development of the accountancy profession in Sri Lanka?

How did the ICASL council maintain conditions which gave rise to exercising strategies to control the profession?

This thesis therefore attempted to uncover the unique characteristics of the British influence and its impact on the accounting professionalization process in post-independent Sri Lanka. Nearly 150 years (1796-1948) of British rule had a significant and enduring impact on the social, political and export-oriented modern plantation economy that was financed by British capital. For example, the very top posts of some of the biggest industrial and trading enterprises that were involved in mercantile activities

associated with the plantation sector in Sri Lanka were held by British qualified accountants (Report of the Special Committee, 1949, Perera, 1975). These practices have perpetuated even after independence, until about the 1980s. As a result the Sri Lankan accounting professionalization process is unique and interesting because the ICASL has been influenced in various ways by the ICAEW since its inception in 1959. For example, prior to the establishment of the ICASL, the practice of accountancy in Sri Lanka was carried out mostly by members of the ICAEW and by RAs who had qualified through examinations conducted by the Ceylon Accountancy Board (CAB), which was established in 1941 by the imperial government. The ICASL was established in 1959 and its first council was formed by British qualified professional accountants. They created an 'elite' group of accountants, while maintaining a self interest on the profession and neglected the locally qualified accountants from the CAB and locally qualified university graduates as explained in Chapter 6 and 7.

Also explained in these chapters, the British qualified local 'elites' have not changed their attitudes or their interest in the British accounting system. The power and authority of the ICASL council, coupled with the support from influential groups, has allowed the British tradition of domination to continue in the accounting professionalization process. These powers symbolized the British legacy and supported the activities of the elites to achieve their self-interest of promoting the British tradition in the accounting and auditing profession in Sri Lanka.

The remainder of this chapter is organized as follows. The next section describes the influence of the ICASL's autonomy and practicing monopoly. Section 8.3 explains the emergence of the local elites. Section 8.4 reviews the class-based exclusionary closure. Section 8.5 presents the British accounting bodies' continued interest in the Sri Lankan market. Section 8.6 explains the continued link between the ICAEW and ICASL. Section 8.7 presents the peculiar relationship between the university and the profession, and the exclusion of university accounting graduates. Section 8.8 provides concluding remarks, discusses the possible future research options and lists recommendations (implications) to summarise the chapter.

## **8.2 ICASL self-autonomy and continued practising monopoly**

As revealed in the literature, the strategies which the British professional bodies employed in the British Empire did not cease post-independence in many of its former colonies. The prioritization of British-qualified and trained chartered accountants, over those accountants who qualified locally, was clearly based on assumptions of the superiority of the British culture. British models and institutions were seen as ‘ideals’ in post-independent Sri Lanka, with the commonly-held view that ‘British is best’, leading many Sri Lankan institutions to be based on the British system. State approval for the creation of legal monopolies fostered this notion.

Sociologists claim that these common phenomena in professions – monopoly of function, service ideals, autonomy of organization and body of abstruse knowledge – are essential attributes. Moreover, professional elites use these attributes to their benefit and make every possible attempt to create a distinctive social class, prestige, status and social standing. It is said that to constitute a profession there should be a considerable interest among occupations and an expectation of professional status. The existence of a professional status creates a social contrast between an occupational group and the general public. When occupational groups serve public interest, it creates an opportunity to gain an advantage, probably by maintaining the monopoly to provide their specialised services to society. The British accounting and auditing model was the blueprint for the development of the accounting profession in Sri Lanka. Before the establishment of the ICASL, accountancy in Sri Lanka was practised mainly by members of the English bodies and RAs who had qualifications from the local CAB. The initiators of the local professional accounting body (ICASL) had gained their qualifications mainly from the ICAEW.

The development of professional accounting in Sri Lanka shows some unique features when compared with other former British colonies. For example, the ICASL has maintained its practising monopoly since its inception in 1959; after the establishment of the ICASL by an Act of Parliament, the Act enabled the body to act autonomously and address the national accounting needs and practice. Only the ICASL members were given the power to practice as auditors in limited liability companies in Sri Lanka. It is interesting to note that this kind of practice monopoly is not mirrored in other British colonies such as Trinidad and Tobago, Kenya, South Africa, Nigeria, the West Indies or

India. This is a unique feature of the Sri Lankan accounting profession, which was maintained by the ICASL. Local professional elites in Sri Lanka, with this practice monopoly, were eager to continue the British traditions of accounting practice and training; they eventually adopted most of the practices followed by the ICAEW in order to marginalise locally qualified RAs and accounting graduates to maintain a practicing monopoly of the accounting and auditing profession. Thus, elite accountants monopolised public practice and dominated the ICASL council, which in turn sanctioned UK-moderated examinations and training under articles. This authority allowed the ICASL to monopolise its members' public practices. It is mentioned in the Act (Section - 21):

[15, 16 of 1964 amended] – no person who is a member of the Institute or is a partner of any such firm of accountants shall practise as an accountant unless he is the holder of a certificate to practise which is for the time being in force: Provided however, that such certificate to practise shall not be issued to a member of the Institute unless such person has had at least a period of two years' practical training in a firm of public practising accountants after he has passed one of the qualifying examinations prescribed by the Council [5, Law 34 of 1975 amended] (ICASL, Act. 1959).

This occupational monopoly (as described by Macdonald, 1985, Walker, 1991, West (1996) Berlant (1975), Larson (1977) and Richardson (1987), was considered the 'power behind the throne' for the elite group of accountants to follow the British style of accounting profession in Sri Lanka. For example, in Kenya expatriate accountants exercised an occupational monopoly but later state intervention negates the monopoly of the profession (Sian, 2006). However, in Sri Lanka continuation of monopoly of practice is a unique which cannot be seen in other British colonies and until now the ICASL holds the practicing monopoly in Sri Lanka.

### **8.3 Emergence of local elites**

The economic and social transformation that took place in Sri Lanka post-independence provided some individuals and families with the opportunity for social advancement through (1) educational accomplishments in English (such as British qualifications) and (2) ownership of economic enterprises in the plantation sector (such as tea, rubber and coconut). According to the analysis of Chapter 5, these two avenues of advancement were closely interwoven. The wealth of pioneering entrepreneurs enabled them to send



their children to be educated in the best schools and even to send them overseas for education and professional training at higher levels. The second and third generations used their education and social contacts to further strengthen their elevated social positions. In other instances, the profession provided adequate support to the elevated status occupied by the local national elite. This suggests that the British influenced every aspect of the lives of Sri Lankans, keeping them bound to Britain with a strong sense of loyalty. The links with Britain were perpetuated through the introduction of British educational, political and social institutions, and businesses through which a long lasting relationship and fraternal friendship could be maintained between the two countries.

This tradition continued for many years. The wealthier majority went to obtain their education and training in the UK accounting environment. This was mainly because British-owned mercantile companies in Sri Lanka gave priority to British-qualified professionals. Thus, the British capital and new company legislations played a significant role in Sri Lanka in pre and post-independence in creating an elite class. This elite class maintained their power during post-independence by crafting a class system and closing off the accounting profession to non-elite groups. The emergence of elites and application of social closure have been reported from many of the British colonies (for example Annisette, 2000; Davie, 2000; Uche, 2002; Sian, 2006, 2007, 2011).

#### **8.4 Class based exclusionary social closure**

The findings from this study support the notion that social closure in the Sri Lankan accounting and auditing profession was influenced by the British imperial. The domination of professional accounting elites (British-qualified Sri Lankans and British nationals) engaged in Sri Lankan auditing firms and the mercantile sector, involved the adoption of various closure strategies intended to restrict entry to the profession for the lower strata of the society. The closure strategy developed by initiators of the ICASL, the elite group, focussed on the adoption of British-training models, familiar to British capitalists, with features that discouraged the entry of Sri Lankans from the lower strata or class of society. It is evident from the interviews that the ICASL purposely deviated from its mission, vision and strategy in the development of the Sri Lankan accounting profession. Thus, the exclusionary closure used by elite professionals before the ICASL was established in 1959 has been perpetuated ever since. The class-based exclusionary social closure strategy crafted by elites can be summarised under the following sub

headings. The class based social closure has been occurred in Britain and also in many developing countries in the world (example, Walker, 2004; Sian, 2011, 2006; Hammond *et al.*, 2009).

#### **8.4.1 Exclusion of Registered Accountants (RAs)**

The RAs had to undergo education and training processes similar to those undertaken by British accounting professionals in the UK; moreover, the CAB's articleship was given under the supervision of British professional accountants. However, British professionals and the British-qualified Sri Lankan 'elite group' did not want to give similar recognition (i.e. professional recognition) to RAs, which they themselves enjoyed. Rather, the elite group allowed RAs to practise only in small business enterprises or in the state sector as government accountants. In this way, an environment was created to distance the RAs from the profession dominated by the elites. This situation led to considerable dissatisfaction and disappointment on the part of RAs. Moreover, the CAB examiners (British-qualified professionals) set tough examinations, and RAs had to undergo rigorous articles of training for a premium payment (the principal sum to be returned to the articulated clerk in instalments).

Provision was made in the Act to appoint a president and members of the council during the first five years of its operation and professional body. The inaugural president, who qualified in the UK, was appointed to the ICASL. Taking advice from Grenier, a British professional accountant, he recommended 10 UK-qualified chartered accountants to the first council, but no one was recruited from the pool of RAs. Thus, even though the national body was established, British-qualified professionals managed to exert their authority and exclude indigenous professionals from the first council. This is clear evidence that the elite professionals applied a closure strategy in appointing only British-qualified accountants. This may be because of the interests of British-qualified accountants who wished to retain the British model within the local body. Further, although the normal period for appointment to the ICAC council was 5 years, this was extended continuously. Also in 1964, the ICAC council administrators made arrangements to amend the act and exclude the RA category. These actions of closure again demonstrate how strongly the elite professionals have acted to protect their privileges. This situation is not unique to the Sri Lankan accounting professionalization process. The ICASL amended the Act in 1964 and removed section 13 of the Act which

provided rights and responsibilities of RAs, similar situation has been reported in Kenya (Sian 2007).

#### **8.4.2 Language barriers**

Sri Lankan national languages were Sinhalese and Tamil until 1972. Thus the primary, secondary and tertiary language of education was Sinhalese and Tamil, except for a few private education institutions which conducted their education in English for the children of elite families. However, from 1959 to 1972, the ICASL's medium of instruction for its examinations and lectures was English. Therefore, there was a language barrier for the average citizen, who had completed their secondary or tertiary education in either Sinhalese or Tamil; the avenue was closed for them to become a professional accountant since the ICASL did not offer courses in local languages.

Moreover, those who pursued chartered examinations after their tertiary education faced many difficulties as they had to first become proficient in the English language and then follow the accounting course in English. This represented an entry restriction for many Sri Lankan citizens until the ICASL started to conduct their courses in both Sinhalese and English in 1972. As suggested in interviews, the English language policy for chartered qualifications was a deliberate move by some of the ICASL council members to maintain their status and prestige in the profession and to close off the accountancy and auditing profession to some sectors of society. By doing this their intention, until about the 1980s, was to assist other sectors of the Sri Lankan society that embraced western values.

The interviews also revealed that, during the high period of closure in the ICASL, it was very difficult to find an articleship training position unless the trainee knew a partner of an auditing firm. Auditing partners selected their potential article trainees through family relationships or students who studied at elite schools or colleges. These institutions conducted their education purely in English. An interesting finding is that these schools conducted '*elocution classes*' for students as part of their English language learning exercises – 'learning of Queen's English'. Such English language exercises, which related to voice production, pronunciation and enunciation (accent) training among students, was promoted and inculcated from the 1960s to 1980s. These schools were the major attraction for the ICASL to select potential accounting trainees from, up to about

the 1980s. Most students who completed their university entrance examinations and those who obtained high marks in the examinations were able to enrol in medical or engineering degrees at the universities. Those who were not able to enter the universities for such degree programs had no option but to enter the accounting and auditing profession by undertaking an articleship through the ICASL. As their high school education was carried out in English, they had no difficulty in working in English in the auditing firms. According to the social class and value system in Sri Lanka, the most prestigious profession was medicine, then law, and finally, accounting. However, students who aspired to become a chartered accountant by studying local languages in their high school education were unable to achieve their career aspirations due to the language barriers. These barriers were created by elites to curtail entry into the profession for certain groups of society in Sri Lanka.

#### **8.4.3 Tough examinations and high failure rates**

Tough examinations, non-accreditation, intensive training through articles and few training opportunities have hindered the development of the Sri Lankan accounting profession. During the last fifty years the ICASL has produced only 3,915 professional accountants (ICASL, 2010) to meet the needs of the 21 million people in the country; this is considered a very small number by any standards. For example, Australia, with a population of nearly 21 million, has nearly 200,000 professionally qualified accountants. Malaysia, with a similar population (22 million), has nearly 46,199 professionally qualified accountants. The editorial page of 'The Accountant' journal of the ICASL in 1988 observed that the output of the institute was negligible when compared with national accounting human resource requirements.

Since 2001 the ICASL has not disclosed detailed information on its examination statistics. This suggests that after Yapa's (2006) investigation the ICASL was under pressure from many critics due to its high failure rates; since then they have strategically stopped disclosing data in relation to annual examination results. However, this study made an effort to critically analyse the available data in order to draw conclusions about the ICASL examination policies and strategies, especially during the most recent seven-year period, 2001 to 2008. Table 5.2 provides collected data for the period under question, which discloses that around one percent of students actually completed the final

examination. The data suggests that there has been no change in the ICASL examination process in recent years.

In the first decade (1960-1970) under investigation, there were 239 newly and locally qualified professionals who had joined the profession as practicing accountants. In the second decade, 197 candidates qualified, 42 less than in the previous decade. From 1980 to 1990 there was an increase in the membership compared with the previous ten years. Comparatively speaking, remarkable progress was made in the next ten years (1990-2000), which saw 1,245 new members to the profession. These statistics indicate that there was another significant improvement in the accreditation process during the period from 2001 to 2010, where the ICASL produced 1,745 qualified professionals. However, this number was not adequate to cater for the accounting needs of the country. By 2010, the ICASL had produced only 3,915 professional accountants in the last fifty years. Thus it seems that the ICASL has been preoccupied with professional practice (especially public practice) and has neglected the other service needs of the accounting profession.

The above analysis provides convincing evidence that tough examinations, with high failure rates, have perpetuated throughout the accounting professionalization process in Sri Lanka.

#### **8.4.4 Lack of training opportunities and rigorous training**

As indicated in the findings, one of the strategies followed by the ICASL to maintain the monopoly of practice was to continue with the article system of training; this is the same system followed by the ICAEW in the UK. According to the CITE (appointed by the state in 1963) report, the period of articles was fixed at three years for graduates of recognised universities and five years for others who had certain minimum educational qualifications. The 'Articled Clerk Scheme' restricted principals to four clerks at any one time. Until the late 1970s the training arrangement was the major obstacle for qualified professional members for several reasons.

Firstly, there were insufficient training vacancies due to the rule of four clerks at any one time under the Articled Clerk Scheme, introduced by the ICAEW. This scheme was in operation throughout the CAB era of accounting and even after the establishment of the ICASL, until 1976. It was one of the main reasons that the CAB became inefficient in qualifying professionals. In fact, this situation also existed in England during the 1960s and 1970s within the ICAEW.

Secondly, the selection of trainees for training organizations was based mainly on their family relationship and family backgrounds. One interviewee who was a member of the FTA (appointed by the state in 1972) indicated that the article clerk system was inappropriate for Sri Lankan accounting training.

Thirdly, it was difficult to secure a place for article training. As interviewees attested, those who aspired to find articleship training had to have contacts with one of the partners of the practicing firms, who might be a relative or family friend. This issue could be explained as one of the ways of creating an elite group in the accounting profession in Sri Lanka. Even today the majority of interviewees expressed dissatisfaction with the training arrangements of the ICASL.

The main objective of the FTA was to identify difficulties in existing training arrangements introduced under the ICASL's articled clerk system, in order to make recommendations for improvement. The committee identified the inadequacy of the existing British model of training and included several recommendations:

1. The articled clerk system of training based on the old British model was inadequate since it was heavily based on legal and statutory audits.
2. The new scheme of training should satisfy the special needs of the economy.

The articled clerk system at that time was also discouraged the average citizens from entering the profession. As the British had done through the Accountancy Board, the ICASL also imposed a premium for the articled clerk training program; Rs. 2000 at the time. This was a prohibitive amount for an average citizen in the early 1960s.

Thus, there is clear evidence that the national body restricted entry to membership and that the articled clerk selection process was left in the hands of principals of auditing firms, who tended to recruit articled clerks based on personal contacts; this excluding

other prospective students. This suggests that the elite group intended to exclude the lower socio-economic groups from the accounting profession as the latter were not able to afford the fees and long-term training requirements. These types of restrictions have been reported from many countries (example Britain, Kenya and Jamaica) including Britain because that is how elite' professionals restrict the entry (Freear, 1982; Sian, 2007; Bakre, 2006).

## **8.5 British accounting bodies' continued interest on the Sri Lankan market**

During the last fifty years, the ICASL has produced 3,915 professionally qualified accountants, of which 1,100 are currently working overseas (ICASL, 2010). Sri Lanka has a relatively fast growing economy e.g. the growth rate is 8 percent, despite the fact that the ethnic conflict, lasting 30 years, only concluded in 2009. As discussed in Chapter 5 and 6, evidence suggests that the country needs at least 10,000 practicing accountants to meet the public and corporate sector accounting human resource needs. The majority of interviewees emphasized that the country is facing a problem of not having an adequate number of professional accountants to meet current developmental projects.

This vacuum creates a great opportunity for some British professional accounting bodies (ACCA, CIMA) to promote their membership and to maintain a colonial link through the accounting profession in Sri Lanka. Recent data (interviews and statistics) provides evidence that these bodies (i.e. ACCA, CIMA) are becoming the dominant professional bodies in Sri Lanka. While about 2,000 qualified professional accountants are currently working as CIMA qualified accountants in various fields in accounting, another 15,000 or so student members are enrolled with CIMA. Similarly, about 500 qualified professional accountants are employed by various sectors in Sri Lanka and about 2,000 student members are currently enrolled with the ACCA. Moreover, in 2010, CIMA announced that it is the fastest growing British professional body in Sri Lanka (CIMA, 2010). It was also observed that CIMA offers the most popular professional qualification among locals; thus they have increased their local market share through member growth of 20 percent in 2010 and student growth of 36 percent during the last decade (CIMA, 2010).

This suggests that even after independence in Sri Lanka the British interest has continued in the professionalization process with a commensurate decline in ICASL membership. The practice of continuing with the ICAEW model in Sri Lanka has created a vacuum in other areas of accountancy, which British accounting associations such as CIMA and ACCA have been able to fill to a certain extent during this period. Evidence suggests that British accounting bodies are the dominant professional bodies in many Post-independence colonies (Sian, 2006, 2007; Bakre, 2006; Davie, 2000; Uche, 2006).

### **8.6 The continued link between ICAEW and the ICASL**

It has been argued that Sri Lanka's imperial history and continuing British investment in the post-independent period significantly impacted upon the business, social, political and educational spheres. Those families and individuals with connections were able to take advantage of the opportunity of an English education to consolidate their elite status. British colonial rule also had an enduring effect on the accounting professionalization process both pre- and post-independence in Sri Lanka. The chartered accountants with British accounting qualifications championed the establishment of the local ICASL, using their connections with the state and Great Britain. The RAs who qualified from the CAB were marginalised by the CAs (the elite group), who used their British qualifications and vested interests with the imperial roots to do so. The British style of accounting education, articleship training and links to local power elites (who modelled the ICASL on the ICAEW), have been the main reasons that elite accountants have been able to continue British interests in the Sri Lankan accounting profession during the period under investigation. Eager to continue with British traditions of accounting practice and training, the elite accountants borrowed most of the practices followed by the ICAEW, including using educational consultants from the ICAEW, in order to marginalise the RAs and to maintain the imperial model of the accounting and auditing profession in Sri Lanka.

Evidence highlights that the pioneers of the CAB held British qualifications (ICAEW). However, through various strategies, some, or perhaps many, of these accountants attempted to maintain the British tradition by gate keeping the process of producing accountants for the benefit of elites and to support the British tradition. In the early 1960s, the ICASL brought a British nationalist who was qualified as a fellow from the ICAEW



to be appointed as the Director of Studies at the ICASL; he made arrangements to import study materials that were produced by a British private company, the Foulks Lynch and Co. Ltd, for Sri Lankan accounting students who were preparing for local ICASL examinations. This indicates how the elites intended to continue with the British links in order to influence the class and status of the Sri Lankan accounting profession post-independence.

British links to the accounting profession exist today in Sri Lanka. For example, just after the ethnic war ended, the ICAEW entered into the Sri Lankan market. In 2010 the ICAEW signed a Memorandum of Understanding (MOU) with the ICASL. According to the MOU, members of both bodies have reciprocal arrangements. Thus, all appropriately qualified ICASL members are eligible to apply for ICAEW membership subject to passing the ICAEW's 'Advanced Stage' examinations Structured Training in Ethics program. According to the agreement, ICAEW examination centres will be located at the British Council office in Colombo, Sri Lanka, to facilitate candidates who need to sit their ICAEW examinations.

This new development suggests that the ICAEW also considers entering the Sri Lankan accounting market by establishing a branch in Colombo. As argued in this study, the development of the Sri Lankan accounting profession has been fuelled by the ICASL, and the entire process seems to highlight British influence on the professionalization process of accounting. It is clear from this that Sri Lanka's imperial history, and the continuing British interest (ICAEW) during post-independence has significantly impacted on the maintenance of closure and a social class; this has created friction among accounting professionals. This can be labelled as the 'divide and rule' principle introduced by Britain to its colonies. Also it is argued that cross-border competition between the ICASL and the British professional accounting bodies (such as ACCA and CIMA) had a stronghold in the local market since there is a shortage of accountants during the period under investigation.

### **8.7 University/ profession relationships and exclusion of university accounting graduates**

Another important finding of this study is that accounting/business/commerce degrees offered by Sri Lankan universities have been overlooked by the ICASL since its

inception. If graduates of these degree programs wish to become professionally qualified accountants, they have no other option but to pass all the ICASL's examinations. It appears that during the period from 1960 to 2010 the ICASL has pursued an agenda to close off graduates, with the help of elitists, by seeking to restrict the supply of qualified public accounting practitioners. This is an important feature of the closure strategy followed by the ICASL, despite the continuous pressure built up by the state and the university authorities over the period under review.

As discussed in Chapter 6, evidence suggests that the slow accreditation process, such as high failure rates and the arduous practice requirements of the ICASL, has hindered the development of the accounting profession in Sri Lanka due to the enforcement of entry restrictions into the profession for the average citizen. Consequently, over the five decades (1959-2010), the ICASL consistently underrated local university education, which had the potential to significantly contribute to the development of the accounting profession; instead the ICASL caused frustration among university graduates due to the non-recognition of their commerce/accounting degree qualifications for ICASL accreditation.

As indicated in the literature, the elite British universities such as Oxford and Cambridge (Ox-Bridge model) were reluctant to develop accounting programs, and, as a result, the ICAEW stands out as an empirical anomaly in that it has not developed its training, education or certification within the university sector in Sri Lanka. The offering of a Bachelor of Commerce degree by the University of Ceylon in the mid-1960s was a significant development, but these university accounting qualifications were disregarded by the ICASL, in line with the British model and with the aim of maintaining a privileged status within the profession.

However, according to the ICASL's new syllabus (2010), a certain degree of recognition has been granted to accounting graduates, but full accreditation has still not been granted for business, commerce or finance degrees offered by Sri Lankan universities. It is not clear why the ICASL does not want to accept university graduates for membership, despite the fact that Sri Lankan university accounting departments are fully equipped with suitably qualified academics (i.e. Masters and PhDs in accounting and finance). This is unique feature of accounting education in Sri Lanka most student started their

professional accounting education before they enrolled at university, for several reasons, including not enough accreditations to their university degrees by the professional body. As a result, there are overlaps in subject contents for university degree and professional qualifications.

Due to the weaknesses of the ICASL accounting accreditation program, students are wasting their energy and time by following both professional and academic qualifications simultaneously. This is a unique situation in Sri Lanka. This has happened mainly due to the maintenance of status (such as 'CA', 'FCA') by the elite council of the ICASL and apparently lack of properly designed accreditation system between the university and the accounting profession. This highlights the nature of the maintenance of the 'elite' ideology of continuing exclusion within the profession for the benefit of their own interests, and to safeguard their rights and status. In spite of reforms in educational development between the accounting profession and universities worldwide, in both developed and developing countries, according to evidence gathered in this study no such efforts have been made in Sri Lanka to create a proper university/profession partnership; such a partnership would effectively make use of educational resources to enhance the accounting profession.

As a result of the amendment to the ICASL Act in 1998, the institute was to offer degree qualifications. Using this opportunity the ICASL started to offer MBA degree qualifications with the collaboration of foreign universities. For example INSEAD, in France, USQ in Australia, Cranfield University School of Management in UK. With this link since 2002, the ICASL has offered a Post Graduate Diploma in Business and Financial Administration in association with the Cranfield University School of Management in UK. The ICASL claims that this is a prestigious qualification. Moreover, following the footprints of the ACCA, the ICASL has developed a link with an Australian university, the University of Southern Queensland, to offer an MBA degree qualification. These initiatives are being introduced, despite the fact that the ICASL is still neglecting Sri Lankan university accounting graduates. The ACCA has similar arrangements with a few universities in the UK, for example a linking program with the Oxford Brooks University. It seems the ICASL is moving away from the professional project of producing locally qualified professionals to address local issues.

In Sri Lanka, there is no proper coordination between local universities and the ICASL. There may be many reasons for this situation, such as the elite tradition of closing off or restricting the profession to groups who are unacceptable to the ICASL elite tradition and the ICASL's council policy with regards to examination, training and exemptions for local degree qualifications. Evidence also suggests that local universities make little effort to develop a close nexus with the professional body. Thus, rigid non-graduate controllership of the ICASL council and academic rigidity of the universities might have contributed significantly to the existing situation of not having a sustainable partnership between the university accounting degree programs and the ICASL's chartered qualifications. Evidence thus suggests that a practising monopoly has hindered the development of the accounting profession in Sri Lanka, due to the enforcement of restrictions to entry that have created accreditation anomalies. For example, over the last five decades (1959-2010), the ICASL has consistently underrated local university education, which has significantly contributed to the underdevelopment of the accounting profession; this has caused frustration among university graduates due to the non-recognition of their commerce degree qualifications for accreditation. This is another unique finding because in many professional bodies, it appears to develop strong relationship with the local universities (for example, Chua and Poullaos, 1993; Birkett and Evans, 2005). However in Sri Lanka there is not strong link with universities and the profession.

## **8.8 Limitation, contribution, future research and conclusion**

This study has examined the influence of the British model of accounting and the maintenance of class systems and closure on the accounting professionalization process in the developing world, notably in Sri Lanka. As revealed in the literature, the strategies which the British professional bodies tactically employed did not end after independence in many of the former British-colonies. The prioritization of British-qualified and trained CAs over those who were locally qualified, was clearly based on assumptions of the superiority of the European (British) culture; this created a class system that endured during post-independence in Sri Lanka.

### **8.8.1 Limitations**

Limitations of the study may arise due to such reasons as complexity of the case study and the methods and techniques that constitute a case study approach. Interview data may be subject to bias due to respondents providing answers they believe will be pleasing to the interviewer, rather than answering honestly. This study specifically covers fifty years (post-independence) of the accounting professionalization process in Sri Lanka, thus 25 interviews may not cover all of the important incidences in the history of the accounting professionalization process in the country. Evidence collected from archival sources for this study may also not identify all historical incidences that occurred during the accounting professionalization process. Finally, the sample does not represent some of the accounting and auditing professionals who held key positions in the accounting profession in Sri Lanka.

### **8.8.2 Contributions**

The main benefit of this study is that it provides a historical context for the accounting professionalization process in Sri Lanka, which has never been covered to this extent in a PhD. The historical context will explain the effect of the continuation of the professional struggles between competing groups and the influence of British professional bodies on the professionalization of accounting in Sri Lanka, especially during post-independence.

Thus, this study attempts to contribute to the existing knowledge on two levels: 1) empirically and 2) theoretically. Firstly, it seeks to make an empirical contribution to the professionalization literature in general and the accounting literature in particular. The research adds to the existing literature on historical studies on professions, which we can find in the fields of law, medicine and accounting as well. Policy-makers could use this research to consider major impediments to the development of the accounting profession, and implement appropriate policies in the future. This study not only serves to improve the understanding of the behaviour of local professional groups through empirical evidence, but also serves to broaden the understanding of accounting professionalization processes in rest of the developing world.

Secondly, this study has expanded the existing understanding of the behaviour of the emerging occupational groups through the perspectives of sociology of professions. It is

argued that due to closure strategies followed by the ICASL, the society suffered and the country's accounting manpower needs have not been adequately met. This occurred through the establishment of control over the supply of practitioners of accounting and auditing services. Sri Lanka provides a unique case study on the professionalization of accounting, because of the practice monopoly and maintenance of the 'elite' (class system) tradition, used to control the profession; this is not seen in other former British colonies in during post-independence.

### **8.8.3 Suggestions for future research**

The study has attempted to bridge the gap in the literature on accounting professionalization process. This study using Sri Lanka as the case examined the social closure in the profession by utilizing Sociology of Professions based 'social closure'. The researcher believes that further studies are to be conducted by focussing on specific areas such as auditing and taxation profession in Sri Lanka and how the global business competition have impacted to the auditing and taxation profession. Moreover, future research could also be conducted to evaluate link between the ICAEW to gauge its impact on the Sri Lankan accounting profession and society in general.

### **8.8.4 Conclusion**

This study aimed to broaden the knowledge of the accounting professionalization process and to uncover whether and, if so, how professional elites dominated and excluded some accounting professionals (RAs) and accounting graduates in the Sri Lankan accounting profession using status, class and prestige. The question is: how did the British model influence the realization of British interests in maintaining a traditional higher social class using the professionalization of accounting during the past five decades (1959-2010) in Sri Lanka.

Therefore, the conclusion of this study is that the objective of the establishment of the ICASL shifted from supplying local professional accounting manpower requirements, to controlling accounting education and the profession by neglecting state-sector organizations and small and medium private sector organizations. As seen during the last fifty-year period (1959-2010), the ICASL produced only 3,915 professional accountants.

The country's requirements for accounting services, both in corporate and state sectors, has been ignored by the ICASL's resistance to university education for accountants; this approach was patterned on the British model.

As a result, the gaps in accounting services in the corporate and state sectors are met by British professional accounting bodies such as ACCA and CIMA. As revealed by interviews, the ICASL is losing its market share as British professional accounting bodies, CIMA and the ACCA, are becoming the most popular accountancy bodies among Sri Lankans and capturing a major portion of the market. Moreover the ICAEW has entered the local market again by signing an MOU with the ICASL in March 2010, which is an example of how the British model and the ICASL's preference for following the elite tradition in the accounting profession have re-emerged. This situation supports ICASL's aim of reinforcing traditional links to sustain British accounting education and practice requirements to provide a professional career path and upward social mobility to a particular class of citizens in Sri Lanka.

## **REFERENCE LIST**

### **Interviews**

Interviews – with senior professional accountants, retired professional accountants from the State and private sector and University academics. Most of the interviews conducted with key policy makers for both university accounting education and accounting profession (example high rank member of the SLAs, ICASL, ACCA, CIMA and RAs). 25 interviewees were involved in the data collection (see page 97).

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## **APPENDICES LIST**

- Appendix 1 Key interview questions
- Appendix 3 Copy of invitation letter
- Appendix 2 Summary of literature professionalization process
- Appendix 4 B.Sc. Accountancy syllabus of the University of Sri Jayewardenepura
- Appendix 5 Presented conference papers which are generated from this study

## Appendix-1

Summary of interview questions:

1. Could you please describe your current and past role as a member of the ICASL? Or a member of (CIMA/ACCA/IPFDA) or senior member of the academia.
2. What can you say about the ICASL accounting profession? Are they maintaining control on accounting and auditing practices or monopoly?
3. Do you believe that the accounting profession in Sri Lanka is meeting national accounting needs? What is your view on this issue?
4. Could you comment on the contribution made to the accounting profession by the ICASL ever since its inception?
5. There is a wide spread opinion that colonial sentiment, the enthusiasm of maintaining professional status all impacted to craft an 'elite group' of accounting professionals in within the ICASL. What is your view about this opinion?
6. Have you experienced any kind of entry barriers to the accounting profession? If so, what are they? Should they maintain such barriers? Why?
7. Could you explain on the high failure rates of ICASL examinations? And as you are aware why do they maintain such a high failure rate?
8. As you know, ICASL members are the only authorized practicing accountants in the country. What are your views on the enrolment and membership process of the ICASL? Do you think that this process is suitable to local accounting needs?
9. How do you view the supply of accounting professionals to the needs in Sri Lanka? For example, does accounting profession provide accounting manpower needs?
10. Do you think local university commerce/business/accounting degree provides an appropriate foundation for a graduate to become a member of the local accounting body - ICASL?
11. In their publications, the ICASL indicates that British accounting bodies such as ICAEW still cooperate in setting up of accounting programs/curriculum etc for the ICASL. How do you comment on this relationship? How appropriate is it, and why?
12. What are your comments and observations about the future of local chartered accountancy in Sri Lanka?
13. If you look at the past data in relation to accounting membership, you can see fast growing student member recruitments by the CIMA and ACCA and also fast growing professional memberships. What do you think about this development?



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Date

Dear Colleague

I am a full time PhD research student in the School of Accounting and Law at RMIT University in Melbourne with extensive experience in the Sri Lankan accounting profession. I would like to invite you to participate in my study to explore “the imperial influence on the accounting professionalization process during the pre- and post-colonial regimes in Sri Lanka and its development”. The study aims to explore various dimensions of the accounting profession in order to understand the development and obstacle to the development of the profession in Sri Lanka. It aims to suggest a generic framework for efficient accreditation procedures of the accounting profession with a view to contributing appropriate policy implications towards economic development. This project is supervised by Associate Professor Prem Yapa and Professor Sheila Bellamy, also of the School of Accounting and Law.

The research project is an investigation of the development of an accounting profession in the context of a developing country. The significance of this research is to investigate

historical and contemporary influences on the profession and to find viable policy options to facilitate the growth of the accounting profession in Sri Lanka.

Your voluntary participation in this research would involve an interview of approximately one hour, during which I would invite you to present your views on the accounting profession in Sri Lanka. The interview will take place in your office or in a mutually agreed location, at a time convenient to you.

The following list specifies your right in relation to participation in this research project:

- You have right to withdraw your participation at any time, without prejudice.
- You have right to request any unprocessed data related to your participation in this project to be withdrawn and destroyed.
- You have right to request a timely response from the investigator for any questions related to this research project.

All recorded interview data will be transcribed, encrypted and archived. The transcribed data will be stored during the analysis phase of the research on the investigator's desktop computer at RMIT University in the School of Accounting and Law. A digital storage device will be used to back up the encrypted data, and stored in a secure place. All the data will be kept for 5 years upon completion of the project, after which it will be destroyed. The data will be treated in a strictly confidential way and will only be viewed by the researchers involved in this project. Any outcomes from this research will be of a general nature without any details of specific participants disclosed. Where a participant's words are directly quoted in a publication, it will be with absolute anonymity. A copy of the research can be provided to you upon request, if the project is going to be published. Any information that you provide can be disclosed only if (1) it is to protect you or others from harm, (2) a court order is produced, or (3) you provide the researchers with written permission.

If you would like to take part in this project, please respond to this letter by sending me an e-mail at [sarathlal.ukwattelathge@rmit.edu.au](mailto:sarathlal.ukwattelathge@rmit.edu.au) to arrange an interview time. The interview will be conducted at your office or in a mutually agreed place. I hope you will agree to participate.

If you have any queries regarding this project, please contact me or my senior supervisor Associate Professor Prem Yapa (Email: [prem.yapa@rmit.edu.au](mailto:prem.yapa@rmit.edu.au) Phone (+ 61 3) 99251606) or the Chair of the RMIT Business Human Ethics Sub-committee ([rdu@rmit.edu.au](mailto:rdu@rmit.edu.au) Phone (+ 61 3) 9925 5594, Fax (+61 3) 9925 5595. Thank you very much for your consideration.

Yours Sincerely

Sarath Lal Ukwatte Jalathge

A/Prof. Prem Yapa

Prof. Sheila Bellamy

## Appendix 3 - Summary of empirical findings on the accounting professionalization literatures

### 1. Developed countries

Title / Author	Type of Publication & Year	Theory/Concept/Approach	Findings and conclusion	Remarks
<p><b>1. UK</b> Organising the Profession: Theoretical and Historical Examination of Development of the Major Accountancy Bodies in the UK</p> <p><b>Huge Willmott</b></p>	<p>AOS Vol.11,No.6 pp555-580 <b>1986,</b></p>	<p>Functionalist approach, Interactionist approach and critical approach had been used to construct the argument.</p>	<p>Based on the theoretical point of view understanding the writer argued that professional associations were conceptualised as inescapable political bodies. Power derives from their organizational capacity to continuously secure from the market and the state the right to control and regulate the supply of, and influence the demand for accounting labour.</p>	<p>This paper is about accounting professionalization process in UK. Interactionist and functionalist approaches, Webers closure and Marx's social structure of capitalist mode approaches have been used to explain the basis for domination of institutions, and organizations associated with it.</p>
<p><b>2.UK</b> The History of accounting and transition to capitalism in England. Part two – evidence</p> <p><b>Bryer R. A</b></p>	<p>AOS 25 <b>2000</b></p>	<p>Marx theory of transaction</p>	<p>The study depicted British domination through colonization.</p>	<p>This provides evidence from agricultural and commercial contexts, a major case study of the English East India Company from its establishment in 1600-1657 (when it became a modern joint stock company) is provided. Finds accounting evidence to be consistent with thesis</p>
<p><b>3. UK</b> “The Advantages of separateness explaining the unusual profession-university link in English Chartered Accountancy”.</p> <p><b>Marcia Annisette &amp; Linda M. Kirkham</b></p>	<p><b>CPA,</b> Vol. 18 Pp.1-30 <b>2007,</b></p>	<p>Sociology of profession  Notorious gap between accountancy research and accounting practice.</p>	<p>In the ICAEW case, the relationship between university and the accounting professional body have never been an unproblematic even though, there were many evidence that university education is the key to successes of a many professional fields.</p> <p>In contrast, it was observed that in ICAEW case the dysfunctional relationship of university and institute was the main reason for the</p>	<p>The relationship between professional bodies and universities.</p> <p>How professional bodies have used their power to restrict the entrance accounting graduate into the profession at the benign but at the latter stage has acted strategically. For instance, the ICAEW has allowed them to enter into the profession however;</p>

			<p>successes of English Accountancy.</p> <p>Professional Training and Examinations have been used as strong controlling mechanisms by the elite group.</p>	<p>they have managed to maintain their professional controllership within the professional environment</p>
<p><b>UK</b> <b>4. Germany, UK Sweden and USA</b></p> <p>Modes of regulation in advanced capitalism: Locating Accountancy in four Countries</p> <p><b>Puxty , Willmott, Cooper and Lowe</b></p>	<p><b>AOS</b> Vol.12 No 3 pp273-291 <b>1987</b></p>	<p>The market, state and community relationship ( Extension of “<b>Notion State</b>” by Streeck and Schemitter in 1985)</p> <p>An intersection of ordering principles.</p>	<p>It has been stressed that there will be no single matrix of market, state and community principles of organization which will apply to all arenas of regulation. Rather, the extent to which each of these regulatory forms is prominent in its influence upon the arena under investigation (such as, for example, the treatment of research and development in accounts, or the method of currency translation deemed appropriate) will vary from one issue to another.</p>	<p>This paper is about how accounting practices are regulated in the advance economies. The author has taken state, market and community as three major principles of social regulation. And also it has named as three principles of social order.</p> <p>This paper stressed In the context of advanced capitalism, how ever, it is insufficient to limit analysis to those contradictions which are essentially economic in nature. This is because during the development of the capitalist mode of production, the state has played an increasingly important and quasi-autonomous role in mediating and or gaining the contradictory tendencies of capitalism.</p>
<p><b>UK</b></p> <p><b>5. The genesis of professional organization in English accountancy</b></p> <p><b>Stephen P. Walker</b></p>	<p><b>AOS</b> 29 pp127-156 <b>2004</b></p>	<p><b>Exclusionary closure</b></p> <p>These may range from aggressive efforts to achieve monopoly by activating strategies of exclusion, to</p>	<p>English accountants often referred to the altruistic intent of protecting the public form the unscrupulous. However, there were some incidents in the past in relation to professional institutionalization has taken place self-interested motives.</p>	<p><b>Disputed evocative altruistic</b></p> <p>The paper thus illustrates that within a single nation, the genesis of professional organization varied in the context of a professional organization varied in</p>



		attempts at preserving and securing advantages positions in the labour market in order that established professional can pursue careers in an ordered environment.	These concerns inter and intra-professional demarcation of work, the protection of markets, and attempt to bifurcate an occupation into classes of superior and inferior practitioners. These themes are now explored in relation to theorisation of professional jurisdictions, conflict, labour market shelters and social closure.	the context of a common legislative catalyst which disturbed extant inter and intra-professional arrangements. The discovery that elements drawn from different frameworks utilised for the study of professions are pertinent to the organisation of English accountants during the 1870s as opposed to being encompassed within for theoretical advance in this field. for too long”
UK 6. Corporatism and Structural change in the British Accountancy profession 1930 – 1957  <b>Walker and Shackleton</b>	<b>AOS 1995 Vol. 20 ,No.6, 467-503</b>	Interventionist ( Marxists theory of state intervention)  Corporatism	During the inter-war period the accountancy profession in Britain comprised an expanding set of multifarious and competing organizations of differential status. At this stage the state has become the increasingly interventionist, particularly during the period of total war. Prevailing climate of national unity and the envisagement of new post war order during the middle stage of the Second World War provided an opportunistic moment for addressing the problem of the organization of the accountancy profession.	It was observed that there was no government recognition to the profession at the beginning, as time goes by accounting organizations have established a committee to draw the government attention and protect themselves through registration process for the recognition. Moreover, to maintain their licensing power. Once they achieved their principal objective, managed to maintain it up to now.
UK <b>7. Keith M. Macdonald</b>  Professional Formation: The case of Scottish accountants	<b>The British Journal Sociology 35 Issue 2 1984</b>	Collective social mobility Middle class Unresolved dialectic of Larson	“Studies of professional formation have employed the concept of <b>collective social mobility</b> , closure and the process whereby knowledge is translated into social and economic rewards: in addition there has been some attempt to show how this occurs”.  Scottish had a strong link with law profession than that of the English, thus	Middle class was not fitted for this study as a theoretical underpin. Until 1931 Bankruptcy Act of 1931, accountants in England were not regarded as professionals. The comparable functions were performed by lawyers. In general class system had been existed

			English accounts were not regarded as Scottish;	
<p><b>8. Social closure and occupational Registration</b></p> <p><b>Keith M. Macdonald</b></p>	<p><b>Sociology</b> 1985 19, 4 541 – 556</p>	<p>The concept of social closure has been employed</p> <p>Legal Monopoly of Parkin (1979:57)</p> <p>Also discuss the state profession relationship.</p>	<p>. The ‘Legal monopoly’ which Parkin (1979:75) emphasizes that to be obtained by contest in the arena’, where the other protagonist are not only other professional bodies but also the state and other groups. Macdonald described this in 1985 through his study of “Social Closure and Occupational Registration” by examining the accounting profession and its long lasted registration attempt. According to his views an occupational monopoly and closure have an in-excludable relationship; Berlant has pointed out his view on legal monopoly “a legal monopoly is something antithetical to the ideology of liberalism”(Berlant, 1975)</p>	<p>The study has discussed on occupational closure through legal monopoly of Berlant and Parkin. Similar ideas were presented by Larkin (1983) on his occupational imperialism and professional dominance the realm of medicine and Para-medicine.</p>
<p><b>9.Global</b></p> <p>The System of professions</p> <p><b>Andrew Abbott</b></p>	<p><b>University Chicago press</b> <b>1988</b></p>	<p>Professional Jurisdiction</p>	<p>“that a profession was an occupational group with some special skill” “profession is always vulnerable to changes in the objective character of its central tasks”</p> <p>“Perhaps professions are carnivorous competitors that grow in strength as they engulf jurisdictions”</p> <p>“ Task of the professions are provide expert service to the human problems(Abbott, 1988,p.33)</p>	<p>Abbott’s commented that professions are independent systems, which contain its own structures. Also he mentioned that professions are competitive and cooperative. Scholars do not reject the Abbott expression on theoretical interpretation on professionalism “ A profession is an occupational group with some special skill” (Abbott 1988,p.7)</p>
<p><b>10. UK</b></p> <p>The power of “Independence” defending and extending the jurisdiction of accounting in the</p>	<p><b>AOS</b> <b>1995</b> 20(6) pp 547-581</p>	<p>Critical Sociology of profession</p> <p>Abbott system of profession</p>	<p>British accountancy profession as a way of resisting threats to self-regulation.</p>	<p>Observe that challenges to the professional jurisdiction come not only from other professions but from external sources such</p>

<p>United Kingdom</p> <p><b>Prem Sikka and Willmott</b></p>				<p>as press, academe, and politicians. Studies way in which image of independence was used by</p>
<p><b>11. UK</b></p> <p>A ring fence for the profession: advancing the closure of British accountancy 1957-1970,</p> <p><b>Walker S.P., Shackleton, K</b></p>	<p><b>AAAJ</b> 1998, 11, Issue 1 Pp.34-71.</p>	<p>Weberian closure theory has been used to develop the theoretical framework of the paper.</p> <p>Centripetal fluidity cessation</p> <p>Retreat</p>	<p>Inclusion and exclusion have been used to protect the profession through entry restrictions. It was observed that there was a conflict between main actors of the profession (elite group) and the state, when they tried to maintain their monopolistic professional stability among the most privileged group. Moreover, the findings revealed that complexities of the professionalization process have underpin the closure objective. The closure strategies had worked well in 1950s and early stage 1960s. However, in latter stage, main actors had realised that state invention was inevitable for further validation of profession among them.</p>	<p>It was observed that the profession has had a close relationship with the state bureaucrats at the beginning of implementation of closure in order to protect the profession and in latter validation purposes.</p> <p>It was observed that the practitioners have taken advantage from the state for their benefits; for instance, there was an attempt of placing the closure in between state and the profession as a strategy.</p> <p>According to the Walker and Shackleton;</p>
<p><b>12. France</b></p> <p><b>Miller</b></p>	<p><b>AOS</b> <b>1990</b></p>	<p><b>Foucault</b></p>	<p>Innovations in accounting and achieved coherence within a particular rationale of government. Accounting is useful within programs of government because of “reciprocity” between particular accountings and abstract rationales.</p>	<p>Reviews ways of theorizing relationship between accounting and the state and rejects “functional” and “external factor” theories of state development. Uses “Colbert period” of Luis XIV’s reign in France to illustrate more complex model. Innovations in accounting and achieved coherence within a particular rationale of government. Accounting is useful within programs of government because of “reciprocity” between particular</p>

				accountings and abstract rationales.
<p><b>13. UK</b></p> <p>Accounting, professions and regulation: Locating the sites of professionalization</p> <p><b>David J Cooper</b> <b>Keith Robson</b></p>	<p><b>AOS, 2006</b> Vol 31 Pp415 -444</p>	<p>“Power of accounting, accountants and accounting profession”</p> <p>immune occlude</p> <p>Power</p>	<p>This paper has observed accountancy professionalization projects in a different angle. Its says there is huge contribution to the accountancy profession from the accounting firms and multinational audit firms, however professionalization studies has limited only individual, state and university involvements comparatively. Specifically elite dominant involvement and creation of power bases.</p>	<p>This paper is a review of almost all the accounting professionalization work during last three decades. It's criticized the previous studies by highlighting the gaps. Special attention has been made towards accounting firms and regulators as contributing institutions for power establishment with in the profession.</p>
<p><b>14.Australia</b></p> <p>The Dynamics of “Closure” Amidst the Construction of Market, Profession, Empire and Nationhood: An Historical Analysis of an Australian Accounting, 1886-1903.</p> <p><b>Wai Fong Chua and Chris Poullaos</b></p>	<p><b>AOS 1998</b> 23,No.2 pp155-197 <b>35</b></p>	<p>Critical Sociology of profession</p> <p>Weber’s class-status-party model</p>	<p>The study highlighted that exclusion of competitors was hardly meaningful or achievable during the most of period under review. In Victorian case in early days it was evidenced that openness rather than a closure has been encourage. Therefore, there was no monopolistic closure had exits in the Victorian accounting associations.</p> <p>All types of accountant (practicing and non-practicing accountants) has been included into the royal charter</p>	<p>The paper argues that monopolistic closure has not given any significant influence to the professionalization process; however, colonial, imperial association and the autonomous state agencies have given significant influence in the process of formation of accounting profession in Australia. Furthermore, it was observed that paper has critically analysed the impact of colonial factors in early stage and influenced of the divers’ discourses of British origins in latter.</p>
<p><b>15. Australia</b></p> <p>Rethinking the profession- State Dynamic: The case of the Victorian cahrter attempt, 1885-1906</p> <p><b>Chua and Poullaos</b></p>	<p><b>AOS</b> 18, 7/8, pp. 691 – 728 <b>1993</b> <b>60</b></p>	<p>Sociology of professions ( Particularly neo-Weberian and neo-Marxist approaches)</p> <p>Profession State relation</p>	<p>This study also has tried to answer the question of why Victorian charter attempt arose and why it failed.</p>	<p>Investigates attempt of incorporated Institute of Accountants in Victoria to obtain Royal charter, a uses evidence to challenge some existing theories within sociology of the</p>

		“The State” and “the Profession” and “imperative of capitalism”		professions.
<p><b>16. Australia</b></p> <p><b>Carnegie, G.D. and Napier, C.J.</b></p> <p>Critical Interpretive histories: insights into accounting’s present and future through its past’</p>	<p><b>AAAJ</b> 9(3) 7-39 <b>1996</b></p>	<p>New Accounting History (Miller et al., 1991,p.396)</p>	<p>“In accounting historians have desperate interest and agendas, and their may well be used by others of different standpoints. For instance, origin of professional bodies in first place and Failures of merger of professional accounting bodies in different nations. Moreover, enhance the understanding of different structures and value systems.</p>	<p>New accounting history and utility theory has been used to theories the project. The study has attempted enhance the understanding of accounting and its relevancy. The relationship of creation of accounting and its conversion as a accounting profession has been explained. Elucidate.</p>
<p><b>17. Australia</b></p> <p><b>Carnegie, G.D., &amp; Parker R.H.</b></p> <p>Accountants and empire: the case of co-membership of Australian and UK accountancy bodies, 1885 to 1914.</p>	<p>Accounting Business and financial History <b>9,</b> <b>pp 77-102</b> <b>1999</b></p>	<p>Imperial enthusiasm Regionalism and proliferation</p>	<p>The proliferation of bodies made intra-professional rivalry and important force in shaping the structure of the accountancy profession.</p>	<p>In Australia in the late nineteenth and early twentieth centuries, the establishment of professional accounting bodies were in form of co-membership of the Australian and British accountancy bodies.</p>
<p><b>18. Australia</b></p> <p>The construction of the professional accountant: the case of the Incorporated Institute of Accountants, Victoria (1886)</p> <p><b>Carnegie, G.D., &amp; Edward, J. R</b></p>	<p><b>AOS</b> <b>26,</b> <b>pp301 -325</b> <b>2001</b> <b>Cite 30</b></p>	<p>Critical Sociology of profession</p> <p>The paper has applied concept of social closure.</p>	<p>“The present study’s findings alert us to embrace the further possibility of intraprofessional rivalry as a determinant of organizational fusion”.</p> <p>The cooper initiative may better be seen as a threat from within local accounting circles that translated into an opportunity, Brentnall(1938, p.64) stated</p>	<p>Based around a prosopo-graphical study of the 45 founders of the first professional accountancy body in the colony of Victoria, uses critical-conflict analysis to examine the trajectory of the professionalization project of accountants in that location.</p>
<p><b>19. Australia</b></p> <p><b>Birkett and Evens</b></p>	<p><b>2005</b></p>		<p>The paper examines the structure of the occupation of accounting in Australia.</p> <p>Control of accounting education is argued to be on dimension of</p>	<p>ICAA’s strategy for control was the ideological stance that its own standard of examinations, dominated by the skill and knowledge required by practicing</p>

			professionalism. Attempts to control accounting through strategies of co-operation, competition and conflicts.	accountants in the work place
<p><b>20. Australia Canada</b></p> <p>The Empire Strikes Back? An exploration of centre-periphery interaction between the ICAEW and accounting associations in the self-governing colonies of Australia, Canada and South Africa, 1880 – 1907</p> <p><b>Wai Fong Chua and Chris Poullaos</b></p>	<p><b>AOS</b> Vol 27, 2002</p>	<p><b>Critical Sociology of Profession</b></p> <p>Profession State-dynamics</p> <p>Globalization</p> <p>Historical case Study</p> <p>Professionalization as a cross-border phenomenon(experience)</p>	<p>It is evidenced that British imperialist state overwhelmingly influenced in the process of accounting professionalization both settler and non settler colonies, through that imperial centre contributed to the construction of an imperial arena. After establishment of local associations in self-governing colonies put the pressure on the ICAEW to recognize the local associations as self governing bodies.</p>	<p>The concept of globalization has changed the shape of the imperial interest, and it's no longer able to use the dominance significance in the field of accounting; however, they have change the strategy and emerge to talk about reciprocal recognition and common portal and complete portability instead</p>
<p><b>21. Australia</b></p> <p>The Self-Governing Domintions pf South Africa, Australia and Canada and the Evolution of the Imperial Accountancy Arena During the 1920s</p> <p><b>Chris Poullaos</b></p>	<p>Book</p> <p>Accountancy and Empire</p> <p>2010 : 10-52</p>	<p>Imperial accountancy arena</p> <p>Cross-border profession state interaction</p>	<p>The study suggests that the failure of the supplemental charter from was due to the protests of the Canadian and South African professions.</p>	<p>The work of professional accounts motivated by desire to compete with English audits (ICAEW) members within the country. Thus at the beginning ICAEW dominate the profession.</p>
<p><b>22. USA</b></p> <p>Changes in the code of ethics of the U.S Accounting profession, 1917 and 1988: The continual quest for legitimation</p> <p><b>Preston et al</b></p>	<p><b>AOS</b> 20(6) pp507-546 <b>1995</b></p> <p><b>Cite 72</b></p>	<p>Critical sociology of the profession; legitimation theory</p>	<p>Examines the US accountancy profession's codes of ethics promulgated in 1917 and 1988. Shows how the different codes reflected differences in how accounts sought to legitimize themselves in the two periods studied: in 1917, accountants were constituted as ethical subjects, whereas in 1988, their normality is defined by and limited to a set of rules.</p>	<p>US accounting profession has been criticized due to quality issues until the later part of the 1980s. Thus accountants struggling to legitimize their profession within the social realm. This has happened due very old code of conduct has lasted over 8 decades until the code conduct had been changed in 1988.</p>
<p><b>23. Greece</b></p>	<p>AOS,</p>	<p>Critical sociology</p>	<p>While the British &amp;</p>	<p>Emergence of the</p>

<p>The creation of Auditing Profession in Greece</p> <p><b>Ballas.a.a</b></p>	<p>1998 Vol.23 No 8 pp715 -736</p>	<p>of professions</p> <p>State-Profession relationship</p> <p>Historical Case Study</p>	<p>American agencies were involved, independent British accountants were used to legitimize the Greek government</p> <p>The emergence of Greek audit profession was a state sponsored form of collective action. It took the form of an auditors' body that was both an association and a firm. It was set up to further the state's own interests (e.g., protection of tax revenues) rather than needs of investors and "capital" markets.</p>	<p>auditing profession in Greece, late 1940s – early 1950's</p> <p>Provide contract to Anglo-Saxon world</p> <p>British &amp; American state agencies were actively involved in Greek affairs at this time</p>
<p><b>24.Greece</b></p> <p>The interplay between professional groups, the state and supranational agents: Pax Americana in the age of 'globalisation'</p> <p><b>Caramanis</b></p>	<p>AOS, 2002 Vol.27 pp379 -408</p>	<p>State-Profession relationship</p> <p>The paper employs Held's (1991) Framework. Democracy, the nation-state and the Global system "Economy and the Society", 20(2) 138-172</p>	<p>The paper explores changes in the state-profession relationship in the era of 'globalization' and documents the catalytic role of major states (the USA), politico-economic blocks (the EU), and other powerful international actors. It is posited that the politics of international accounting professionalism in the 'globalization' era are becoming more polycentric with (lesser) nation-states as merely one level (of diminishing importance) in a complex system of superimposed, overlapping and often competing national and the international agencies of governance.</p>	<p>According to the Caramanis The Greece accounting professionalization is on the hands of the globally well positioned international agents. "Development of the Greece auditing profession in the 1990s, with the active participation of a number of supranational organizations and other interested and powerful international agents, illustrate an example of suprastate global governance I in the age 'globalization'.</p>
<p><b>25.Greece</b></p> <p>Rationalisation, charisma and accounting professionalization: perspectives on the intra-professional conflict in Greece, 1993-2001,</p> <p><b>Caramanis, C.V.</b></p>	<p>AOS, 2005 Vol .30, No 3, pp.195-221.</p>	<p>Weber's Class-Status-Party, Rationalisation and Charisma. Mix of data and cross-method triangulation has been used to analysed the evidenced as methodology.</p>	<p>Greek's accounting profession has been controlled by the International Accounting and Auditing firms and also those firms were closely monitored by the international socio-economic actors, therefore, the indigenous accountant has launched a confrontation to acquire their territory.</p>	<p>This paper has discussed the attempt of indigenous accounting professionals has made to get their profession back from international accounting firms along with the liberalization of the Greek Auditing and Accounting profession in 1992.</p>

<p><b>26. Greece</b> <b>Imperialism of influence</b> and the State-profession relationship: The formation of Greek auditing profession in the post –wwII era</p> <p><b>Dedoulis and Caramanis</b></p>	<p><b>CPA, 2007, Vol 18 pp393-412</b></p>	<p>Imperialism of influence Anisette(2000) State-profession axis</p>	<p>Formation of the Greek institution of auditing in the aftermath of WWII and shows that, despite “Western” influences, a corporatist auditing body was instituted as a means of better serving state policy priorities (policy over market purposes)</p>	<p>The developments in auditing may not follow in a linear fashion as the predetermined outcome of pressure exerted by “Western” organisations and as a (perfect) emulation of the dominant Anglo-American paradigm.</p>
<p><b>27. Spain</b></p> <p>Spain, July 1988: Some Observations on becoming Professional</p> <p><b>P.D Bougen</b></p>	<p><b>AOS, 1997 Vol 22 no 8 pp757-777</b></p>	<p>Concept of “Becoming” of Deleuze &amp; Guattari’s</p> <p>Miller &amp; Rose: ‘assemblages of government’</p>	<p>Result of an ‘odd mixture’: True &amp; Fair + view that the audit report is a commercial document’ and that auditors are to be monitored by state through an official auditors Register; with state having access to audit documentation.</p> <p>The Spanish auditor is a ‘becoming’ professional somewhere in between socialism &amp; liberalism; in a continuous state of movement (i.e, no equilibrium’ in sight – CP)</p>	<p>Spain after, Franco. Introduction of 1988 Audit Law – a way of realigning professional expertise to a state in transition – liberalism in its infancy state, under a ‘socialist’ government; with Spain having just entered the EC and with the opening of borders in prospect</p> <p>Compare Spain to ‘more advanced’ liberal states</p> <p>Study shift from little or no audit &amp; disorganised profession’ to .....</p>
<p><b>28. Canada</b></p> <p>Social Closure in Dynamic markets: The incomplete professional project in Accountancy</p> <p><b>Richardson</b></p>	<p><b>CPA, 1997 8, (6) pp635 – 653</b></p>	<p>Market Closure Market enhancement Professional closure Professional power</p> <p>Attest</p>	<p>The author has conclude the paper stating that the result of the professional project in accountancy is incomplete: the profession has failed to gain the statutory recognition of a task domain in which accountants are uniquely qualified to practice; the profession has fail to develop a cognitive basis sufficient to standardize the training of practitioners and close the profession; and’ the market for public accounting services has shifted away from those core activities that the institutional structure</p>	<p>Market closure has become the failure because the profession has failed to develop cognitive base and survived facing the market changes based on several factors such as technology, organizational structures so on and so forth.</p> <p>Why the profession become a failure?</p>



			was designed to support and protect.	
<b>29. Canada</b> <b>Canada Between Empires</b> <b>Richardson</b>	Book Accountancy and Empire <b>2010 53 76</b>	Functionalists, Interactionist and Critical theorist	The study considers the ebb and flow of imperial influence on the Canadian accounting profession.	British empire did not exist in isolation. It developed in conflict with other imperial powers and managed to conquer over other imperial powers dominate the world for sometimes that was reformed by rebellions mong its colonies.
<b>30. Canada</b> <b>Simmons and Neu</b>	AOS <b>1997</b>		This paper examines how professional organization interprets external economic, social and political changes to membership and how and how journal reflects occupational elite's views.	A move away from "antigovernment" editorials towards technical ones is linked to a change in the regulatory status of the professional body.
<b>USA</b> <b>31. The professional ization of every one</b>	<b>The American Journal of Sociology</b>  70, no 2 1964 137-158			
<b>32. Sweden</b> Auditor regulation and economic crime policy in Sweden, 1965 - 2000	AOS <b>30</b> 127-144	Critical Sociology of professions; New Institutional theory	Explains terms of political pressures rather than as a response to scandal or crisis.	Notes that government was successful in imposing this duty on auditors only when it could be expressed in terms of enhancing the working of markets and improving industrial democracy, rather than as a type of 'police' activity
<b>33. Belgium</b> De Beelde  Creating a profession 'out of nothing'? The case of the Belgian auditing profession	AOS 2002 (27)  Cite 15	Critical sociology of profession  Method(contemporary documentation and secondary literature)	This paper demonstrates how external parties and existing professionals interacted when the state took initiatives to organize auditing in a continental European country. It also shows how accounting professional tried to obtain official recognition for their occupation, and how organized capital and	Discusses the emergence of auditing profession in Belgium soon after 2 <sup>nd</sup> World War. Although existing expert compatible groups formalized their structure, they were not able to establish an occupational monopoly, enabling the state to set up,

			labor and their representatives in parliament reacted to these attempts.	“Out of nothing”, a separate auditing body reporting to labor as well as capital, and subject strong state control
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## 2. Developing Countries

### 2.1 African region

<b>34. Kenya</b>  <b>Operationalizing closure in a colonial context</b>  <b>S. Sian</b>	<b>AOS</b> Vol. 36 363-381 2011	<b>Closure</b>	This seen as failure of professional body to operationalize closure is dependent upon its ability to build a membership which is endowed with rights to access the market for services to the exclusion of non-members	This situation is very similar to Sri Lankan story
<b>25. Kenya</b>  Inclusion, exclusion and control: The case of the Kenyan accounting professionalization project  <b>S. Sian</b>	<b>AOS</b> vol,31 issue, pp.295-322 <b>2006</b>	Webers closure theory has been applied , Oral History Technique and Archival Research have been used.	Establishment of three tier <b>KASNEB, RAB, and ICPAK</b> system of regulation anticipated transfer of power from the expatriate accountants to African Kenyans. Political ideals were important in determining inclusion and exclusion. In the short period of Kenyan independent history expatriates were the dominants in the accounting profession therefore, the government was adamant that in line with their declared agenda of the profession steered by the African Kenyan.	In Kenyan case, government intervention and made the decision for benefit of the local accountancy profession, rather than British-base profession. This was an interesting and valuable event that has taken place in a colonised country. Took the control over inclusion and exclusion
<b>36. Kenya</b>  Reversing the exclusion: The Africanisation in Accountancy in Kenya, 1963- 1970  <b>S. Sian</b>	<b>CPA</b> 18 pp 831 – 872 <b>2007</b>	Race based affirmation action	The Study set out to examine how constitutional change and changes to political ideology at the national level can potentially have far-reaching consequences for the organization of professional accountancy	Political intervention has been for the benefit of nation in most of the cases in the accounting professionalization process in the world
<b>37. South Africa</b>  South African’s transition from apartheid: the role of professional closure	<b>AOS 334</b>  <b>2009</b> pp 705 – 721	Social Closure base on Race and class. Color bar	Apartheid ( n. An official policy of racial segregation formerly practiced in the Republic of South Africa, involving political, legal, and economic)	Accounts of the dynamic of exclusion experienced by black chartered accountants suggest

<p>inn the experiences of black chartered accountants</p> <p><b>Theresa Hammond</b> <b>Bruce M. Clayton</b> <b>Patricia J. Arnold</b></p>	<p><b>Cite 5</b></p>	<p>Oral history technique</p>	<p>Social closure theory originated with Max Weber as an attempt to develop a general framework for understanding all forms of exclusion within society. Codes of social closure are, thus, defined broadly as the formal and informal rules governing the practice of monopoly and exclusive on any basis, whether it be race, ethnicity, gender, religion, citizenship, property, education or other credentials such as professional licensing.</p>	<p>that closure operated in two ways. First, deeply embedded racial ideologies defined the boundaries of professional society, and manifest in individual acts of discrimination and bigotry. Even after as apartheid crumbled white supervisors notions of racial superiority continued to defined the experiences of black trainees and exclude them from the professional “community” (Power, 1999) in much the same way as they did in earlier periods.</p>
<p><b>38. Nigeria</b></p> <p>Professional Accounting development in Nigeria: Threats from the inside and outside</p> <p><b>Chibuike U. Uche</b></p>	<p><b>AOS</b> 2002, Vol27, pp 471-496</p> <p><b>cite 92</b></p>	<p>Historical case study</p> <p>Profession-State dynamic: analyse process rather than outcome; this involves examining the political &amp; social environment</p> <p>Rancour</p>	<p>The type of government (e.g., military rather than democratically elected), societal expectations, interest groups and government actions have all impacted upon the accountancy profession; especially in mediating and deciding between numerous competing claims emanating from the occupation.</p>	<p>This paper has critically analysed the relationship of the state and the profession and also it has discussed how the state has influenced the process of development accounting by expediting the process of producing accounting in the country which has addressed the national needs.</p>
<p><b>39. Nigeria</b></p> <p>Colonial Heritage and the Accounting profession Nigeria</p> <p><b>Uche</b></p>	<p>Book</p> <p>Accountancy and Empire</p> <p><b>77-98</b></p> <p><b>2010</b></p>			

<p><b>40. Jamaica</b></p> <p>First attempt at localising imperial accountancy: THE CASE OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF JAMAICA</p>	<p>CPA 16 2005 995- 1018</p>	<p>Cultural Imperialism and Colonialism</p> <p>This case is about conflict between local elites and colonial (global capitalist) elites</p>	<p>Former colonial elites, as members of the global capitalist elites, tried to build Jamaica as home away from home for American and Europeans, whereas, the local capitalist elite would have wanted Jamaica to be a comfortable place or Jamaicans. That were the two conflicting interest of two parties.</p>	<p>The relationship of capitalism and imperialism have also encouraged the parent body, the ACCA to prefer to continue to enjoy its uninterrupted access to the accountancy market in Jamaica as it used when is a colony. Thus support from the global capitalist elite members of the ICAJ, who favour internationalisation, continues to guarantee the ACCA its continued control of the ICAJ, and accountancy market in Jamaica and indeed, the entire Caribbean.</p>
<p><b>41. Jamaica</b></p> <p>Second attempt at localizing imperial accountancy: The case of the Institute of Chartered Accountants of Jamaica (ICAJ) (1970s-1980s)</p> <p><b>Owolabi M Bakre</b></p>	<p>CPA 2006, vol.17, pp1-28</p>	<p>Globalization Colonialism, Imperialism have been used to theorised this paper.</p> <p>An interviews and archival data collection has been used as methodology</p>	<p>First attempt of localisation of Institute of Chartered Accountants of Jamaica (ICAJ) was a failure, because influential minority members in ICAJ and UK based ACCA, continuously use their power. Second attempt also was a failure, because UK-based ACCA has taken the full control over profession through influential and powerful minority members as they did before.</p>	<p>UK-based ACCA has attempted maintain the professional market with the help of elite professionals. At this end ACCA has deliberately undermined the quality of the M.Sc accounting Degree, in order to maintain their superiority</p>
<p><b>42. Trinidad and Tobago</b></p> <p>Imperialism and the Professions: the education and certification of accountants in the Trinidad and Tobago</p> <p><b>Marcia Annisette</b></p>	<p>AOS, Vol.25, 2000 pp 631-659</p>	<p>A structural theory of imperialism,</p> <p>Abbott and Larson's Sociology of the professions</p> <p>Historical Case Study</p>	<p>How an ACCA collaborate with local elite group of accountants (Local Institute) and control the production of producers and exclude individuals from membership on the basis of class, gender and race.</p> <p>In this context of the study findings; the professional education, examination and certification have played a major role in demarcating and defining</p>	<p>. According to the Annisette, professionalization has shown more similarities with the English accounting professionalization process. As it has happened in the most of the colonized countries. The TT local elite accountants had developed strong connection with UK</p>

			the boundaries of a profession both in terms of its membership and in terms of its knowledge-base.	based ACCA, through their local institute. “Tied to the strings of the ACCA” (Supersad,1995)
<b>43. Trinidad and Tobago</b>  <b>Marcia Annisette 2003</b> The colour of accountancy: examining the salience of race in a professionalization project	<b>AOS</b> 2003 28 pp639-674	<b>Sociology of Race</b>  Interviews, primary archives of professional bodies, contemporary documentation	Discusses how accountancy practice in T/T was, in the period prior to independence, perceived racially as white (indeed as British) Considers how this led to particular forms of conflict in the post-independence period, with non-white accountants.	Having to seek employment with the state rather than in public practice, and the professional body excluding MSc in accounting graduates, which was associated with social actors defined as “black” Confirms findings in other countries that non-white involvement in professional accountancy lagged behind that in medicine and law?

## 2.2 Asian region

<b>44. Bangladesh</b>  <b>Uddin and Hopper</b>	<b>AOS</b>  <b>2001</b>	Political economy of accounting, labor process, particularly Burawoy (1979,1985)	After privatization accounting controls became more significant and were imposed in a coercive manner on managers and the shop floor workers	Studies how role of accounting system is shaped by and helps to shape state and production politics, by examining a manufacturing during a period of nationalization and one of privatization. Notes how, during nationalization, accounting systems were marginalized and control was exercised through political interventions.
<b>45. India</b>  The Influence of Empire on the Establishment of the Institute of Chartered Accountants of India after independence	<b>Accountancy and Empire</b>  <b>169 – 192</b>  <b>2010</b>	<b>McKinnon (1986) theory Disciplinary powers</b>	The development on accounting system in India in to three: source, diffusion, and reaction, intra-system activity	The paper presents an episode of post-independence Indian accounting professionalization process

<b>Shraddha Verma</b>				
<b>46. Malaysia</b> “Interest” and accounting standard setting in Malaysia	<b>AAAJ</b> Selvaraj D. Susela 12 no 3 1999	Rational choice model or Rational actor model	The economic development in Malaysia has been rapid, having recently become linked to the growth of big business. Accounting has come to be seen as playing a significant, if not expanded, role in fostering the growth of the corporate sector and to have the potential to spearhead the development of the capital market. To this end, the focus on financial reporting has become critical, and with it the aspects of accounting standards that specify accounting treatment and disclosures have become particularly significant.	This paper has analyzed those developments by paying close attention to actors’ disclosures in order to interpret their construction of their own interests and those of others.
<b>47. Malaysia</b>  <b>The Malasian Accountancy Profession and its Imperial Legacy (1957-1995)</b>  <b>Devi S Susela</b>	Book  Accountancy and Empire  <b>99 – 123</b>  <b>2010</b>	Imperialism	British colonial rule in Malaysia resulted directly in an economic divide between the various races that necessitated concerted efforts by the post-colonial government to rectify racial economic disequilibrium whilst actively promoting economic development	The formation of MACPA is British influenced local body mainly foreign qualified(British and Australia) were involved with the practice which suggests Imperial influence. whereas MIA also a British connected body represent ACCA and ASA professionals but by and large a whole profession under imperial power.
<b>48. Brunei Darussalam</b> Professional Accounting Environment in Brunei Darussalam  <b>Prem Yapa</b>	<b>AAAJ</b> 12 328-339 <b>1999</b>	Imperialism	The professional accountants were able to dominate the profession by suppressing other professional associations.	They did control the profession by misusing the autonomy.
<b>49. Case of Philippines</b>  <b>Accounting and empire: Professionalization –as-resistance</b>	<b>CPA</b> 18 415-449 <b>2007</b>	Said’s Culture and Imperialism (1993)  Focal points -A competitive market for accounting services	Philippine professionalization project is best understood as an expression of the political interest and strategy of a feisty cohort of native political elites engaged in a struggle with their American colonizers.	This paper has discussed the Philippines public accounting profession. In this study drawing theoretical frame from Said study of “Culture and the

		-Self-organizing group of accountants -Self-directed modernist State	Passing of Act of 3105 of 1923 cannot be attributed to one or more of the following points:  *No proper control the local market for public accounting services * There is no foreign cross mobility project in train.	Imperialism” the paper argues that law is enforced by the Philippines legislature address the financial probity. In this case the politics is strongly linked with the profession.
<b>50. Sri Lanka</b> Accounting and its environment in Sri Lanka <b>Perera</b>	<b>ABACUS</b> 11 86-96 <b>1975</b>		The study has concerned about the Sri Lankan accounting environment	The paper has commented on existing accounting education and training in Sri Lanka and concluded that accounting has not contributed to the economic development of the country
<b>51. Sri Lanka</b> Colonialism and Accounting Education in Developing Countries <b>Wijewardena and Yapa</b>	The international Journal of Accounting 33 <b>269-281</b> <b>1998</b>	Colonialism	The paper has concerned about the colonial influence on the accounting education in Sri Lanka and Singapore The study found out Singapore has moved away from colonial influence but Sri Lanka is still stagnating	It’s privies good comparison between two colonies
<b>52. Asian Region Accounting education and training in ASEAN: The Western influence and the experience of Singapore, Malasia, Indonesia and Brunei Darussalam</b> <b>Yapa</b>	Research in accounting in emerging economies Vol .5 Pp 267-292 <b>2003</b>		This book chapter provides valuable insight into Sri Lanka accounting education profession and its present environment in the Country	The book generally has covered the all most all-important elements of Sri Lankan accountancy and profession
<b>53. Sri Lanka</b> <b>Cross-border competition and the professionalization of accounting: The case of Sri Lanka</b> <b>Yapa</b>	Accounting History Vol 11 No 4 Pp 447-473 <b>2006</b>	Social closure	The paper found out the national accounting body has restricted the entry and limit the number of the professional accountants is in the country. Consequently British bodies entered into the profession	That is interesting story about the British influence into the accounting profession in Sri Lanka.
<b>54. Sri Lanka</b>	Book	Imperialism	The national accounting body maintains the British	The elite professionals have

<p><b>The Imperial Roots of Accounting Closure : The Case of Sri Lanka</b></p> <p><b>Yapa</b></p>	<p>Accountancy and Empire</p> <p>2010 124-143</p>		<p>tradition during last 50 years</p>	<p>used the imperial model and close off the profession up to the and derailed the objective of the establishment of the profession.</p>
<p><b>55. Sri Lanka</b></p> <p>Western Imperialism and Eastern Accounting – the story of CIMA in Sri Lanka.</p> <p><b>Balachandran</b></p>	<p>Rev.fac.cienc. econ., Vol.XV- No.2, pp 9-27 December 2007,</p>	<p>Foucault’s genealogy of power and the archeology of knowledge</p> <p>Imperialism</p> <p>Suffrage</p> <p>Concede</p> <p>Forthcoming</p>	<p><u>Interview with founder members</u></p> <p>On their return to their home these indigenous professionals formed the “modernizing elite” (Johnson, 1973, p 282)</p> <p>CIMA local Branch 1965</p> <p>When these UK qualified accountants returned to Sri Lanka they were looked upon as “London return” and were offer jobs even before they left London.</p>	
<p><b>56. China</b></p> <p>The re-emergence of the public accounting profession in China: A hegemonic analysis</p> <p><b>Helen Yee</b></p>	<p><b>CPA, 20 2009 pp 71-92</b></p>	<p>Gramsci’s Concept of hegemony</p>	<p>The author has concluded the paper by stating that there is strong link between accounting profession and the state. “Implicit in the vertical and unequal relationship are mutual but complementary obligations – a duty of benevolence and care on the one side, and a duty of obedience on the other. Under the new political ideology under Deng’s era had created a favorable and supportive environment for the development of accounting profession.</p>	<p>PRC (Peoples republic of China) practices its hegemonic or else authoritative and dominant role across the nation therefore, public accounting profession is totally state control accounting profession which successfully mobilized the Chinese accountants in the implementation of its economic-related agenda. Foe</p>

### 2.3 ASIA Pacific Region

<p><b>57. Fiji</b></p> <p>Accounting for imperialism: a case of British –imposed indigenous collaboration.</p> <p><b>Davie S.S.K</b></p>	<p><b>AAAJ, 13,(3) pp 330-359 2000</b></p>	<p>“Imperialism” {Gallagher and Robinson(1953), Robinson (1972;1978;1986) Mommsen (1986)}”</p> <p>“Principle of elite indigenous collaboration”</p>	<p>The paper has discussed about the involvement of accounting profession in imperialism and how the profession has been used to authenticate imperialistic activities across the nation.</p> <p>The result has created indigenous chiefly</p>	<p>The paper tried to explained; how British Imperialism dominate and control the indigenous Fijian elitist structure, how accounting profession use as a mode power</p>



		“Historical case study	hegemonic structure to acquire the both human and natural resources to enrich the empire.	implementing upon the indigenous elitist and how accounting system has been imposed as integral part of the imperial policies and activities for empire expansion
<b>58. China</b> Hao,	<b>AAAJ 1999</b>	Market state community	The post-1978 era of openness has paved the way for the reemergence of an accounting profession	
<b>59. China</b> <b>Yapa and Hao</b>	<b>Asian Reveiw of Accounting 2007</b>	States and the accounting association		
<b>60. Belgium</b> De Beelde,	<b>AOS 2002</b>	State and profession relationship  Siegrist’s socio-historical typology of professions	State was the dominant force in organizing the audit profession.	
<b>61. China</b> Xu & Xu	<b>AHJ, 2003</b>	State profession relation  Sociology of professions Historical case study	At the time, the status of a public association depended on the role it played in the political arena	

## Appendix 4: B.Sc. Accountancy Syllabus of the University of Sri Jayewardenepura

		COMMON PROGRAMME		ACCOUNTING SPECILIZATION	
		Year I	Year II	Year III	Year IV
Semester 1		<ul style="list-style-type: none"> <li>• English I: Grammatical Foundation</li> <li>• Finite Mathematics</li> <li>• Introduction to Information Technology</li> <li>• Introduction to Management</li> <li>• Financial Accounting</li> </ul>	<ul style="list-style-type: none"> <li>• Statistical Analysis for Management</li> <li>• Macroeconomics</li> <li>• Human Resource Management</li> <li>• Marketing Management</li> <li>• Financial Management</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced Financial Accounting</li> <li>• Taxation</li> <li>• Auditing</li> <li>• Internship in Accounting and Finance-I or Computer Application for Accounting</li> <li>• Minor</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic Management</li> <li>• Financial Reporting</li> <li>• Internship in Accounting and Finance -III</li> <li>• Minor</li> <li>• Elective</li> </ul>
		<ul style="list-style-type: none"> <li>• English II: Composition</li> <li>• Calculus &amp; Probability Theory</li> <li>• Computer Software &amp; Applications</li> <li>• Microeconomics</li> <li>• Cost &amp; Management Accounting</li> </ul>	<ul style="list-style-type: none"> <li>• Political Environment</li> <li>• Legal Environment</li> <li>• Operations Management</li> <li>• Personal &amp; Social Responsibility</li> <li>• Natural Resource Management</li> <li>• Resource &amp; Environmental Economics</li> <li>• English III: Professional Communication</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced Management Accounting</li> <li>• Computer Based Accounting</li> <li>• Corporate Law</li> <li>• Internship in Accounting and Finance-II or Management Information Systems</li> <li>• Minor</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced Accounting Theory</li> <li>• Financial Statement Analysis</li> <li>• Internship in Accounting and Finance -IV</li> <li>• Minor</li> <li>• Elective</li> </ul>

Course Code	Course Title	Course Status	Contact Hours	Credit Hours	Service Dept
Year I: Semester I					
ACC 1401	Financial Accounting	Major	60	4	ACC
BCC 1201	English I: Grammatical Foundation	Major	60	2	BCC
IDS 1301	Finite Mathematics	Major	45	3	IDS
IDS 1302	Introduction to Information Technology	Major	45	3	IDS
BUS 1301	Introduction to Management	Major	45	3	BUS
Total Credit Hours				15	
Year I: Semester II					
ACC 1302	Cost and Management Accounting	Major	45	3	ACC
BCC 1202	English II: Composition	Major	60	2	BCC
IDS 1303	Calculus And Probability Theory	Major	45	3	IDS
IDS 1401	Computer Software and Applications	Major	60	4	IDS
BEC1301	Microeconomics	Major	45	3	BEC
Total Credit Hours				15	
Year II: Semester I					
IDS 2401	Statistical Analysis for Management	Major	60	4	IDS
BEC 2301	Macroeconomics	Major	45	3	BEC
FIN 2301	Financial Management	Major	45	3	FIN
HRM2301	Human Resource Management	Major	45	3	HRM
MAR2301	Marketing Management	Major	45	3	MAR
Total Credit Hours				16	
Year II: Semester II					
PUB 2201	Political Environment	Major	30	2	PUB
COM2201	Legal Environment	Major	30	2	COM
IDS 2302	Operations Management	Major	45	3	IDS
BCC 2201	English III: Professional Communication	Major	60	2	BCC
HRM 2302	Personal and Social Responsibility	Major	45	3	HRM
EMV2208	Natural Resource Management	Major	30	2	EMV
EMV2209	Resource and Environmental Economics				
Total Credit Hours				14	

## **Appendix 5: Colloquium and conferences where papers were presented during the study period**

### **1. Asia Pacific Interdisciplinary Research in Accounting (APIRA)- Symposium 2010 – Sydney**

Application has been sent to APIRA 2010 doctoral colloquium which is a competitive one and my application was accepted by APIRA and I attended the colloquium in July 2010. In the colloquium, I was fortunate to meet veteran scholars in the panel discussion, such as Professor Chris Chapman; he is Editor in Chief of Accounting, Organizations and Society, Professor Kerry Jacob and Professor Jessie Dillard. I was given valuable guidance to proceed with my study. Consequently, I was able to produce following conference papers.

### **2. AFAANZ Conference 2011- Northern Territory**

Ukwatte, S., & Yapa, P.W.S (2012), 'Imperialism and the practicing monopoly: professionalization anomalies on accreditation of accountants in Sri Lanka, 1941 – 1980'. The paper was presented at the Accounting and Finance Association and New Zealand (AFAANZ). This paper is being developed for the Accounting, Auditing and Accountability Journal (AAAJ). This paper is nearly complete and intended to be submitted by 15 January 2013.

### **3. International Research Conference on Financial Management**

Ukwatte, S., Yapa, P.W.S (2011), 'Development of Accounting Profession and Imperial Legacy: Post-independence – Sri Lanka'. This paper was accepted by the International Research Conference on Management and Finance in 2010, and has been accepted for publication by the '*Asian Profile Journal*' (APJ).

#### **4. Asia-Pacific Conference on International Accounting Issues 2011 – Beijing China**

Ukwatte, S., Yapa, P.W.S & Bellamy, S (2011), 'Closure, exclusion and controls in British colonies: the incomplete accounting professionalization process in Sri Lanka'. This paper was presented in October 2011 in Beijing, China, at the 23<sup>rd</sup> *Asian Pacific International Conference on Accounting Issues (APICA)*. This paper is being developed for the *Accounting Historian Journal (AHJ)* and is intended to be submitted by the end of January 2013.

#### **5. AFAANZ Conference 2012 – Melbourne**

The third conference paper was sent to AFAANZ Conference 2012. The title of the paper is "National Interest and Imperial Inheritance: Perceptions of Accounting Profession in Sri Lanka". The conference was held in in July 2012.