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# Perception of Accounting Experts on the Implementation of Integrated Reporting in Sri Lanka

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**Abstract-** The main purpose of this paper is to examine the perception of accounting experts on the implementation of integrated reporting in Sri Lanka. Integrated reporting provides a wide range of information especially financial and non-financial information to economic decision makers of the company. Primary data used in this study which was collected from accounting experts such as academicians, auditors, professional accountants/ chief financial officer, accounting special degree graduated students, undergraduate students and accounting related professional studies students in Sri Lanka. Primary data collected through a 5 points Likert scale questionnaire. Questionnaire of this study covers two major parts, opportunities and benefits, challenges and disadvantages on the implementation of integrated reporting. Descriptive analysis performed in this study with the help of SPSS latest version. Mean analysis confirmed that opportunities and benefits on the implementation of integrated reporting are more than challenges and disadvantages on the implementation of integrated reporting in Sri Lanka. Further, this study found that there is a lack of knowledge and awareness regarding integrated reporting in Sri Lanka. Respondents of this study strongly recommended that there should be needed proper training program on integrated reporting for internal and external stake holders of the company.

**Keywords:** *perception, opportunities, challenges, accounting experts, implementation, integrated reporting, sri lanka.*

**GJMBR-D Classification:** JEL Code: M41



*Strictly as per the compliance and regulations of:*



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## 1. INTRODUCTION

The main objective of the financial statement preparation is to provide the information for economic decision makers. Financial accounting provides information to not only for the internal users but also to external users on the other hand management accounting provides information only to internal users generally to top-level management of the company. Financial and non-financial information should be needed to make the economic decision so economic decision makers are seeking and expecting financial and non-financial information. Traditional financial reporting is mostly providing financial information. There is a problem in traditional reporting which did not meet the expectation of financial statement users. There is a strong evolution of corporate reporting in the world.

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Corporate reporting evolution can be considered as followings financial statements, environmental reporting, sustainability reporting, and integrated reporting. The main purpose of above corporate reporting evolution is to provide more information to the users and create value for the organization.

There is number of changes in financial reporting, accounting standards and auditing standard in Sri Lanka. Sri Lanka adopted international accounting standards and international reporting standards very first from 1<sup>st</sup> January 2012 even though there are a number of changes in Lanka Accounting Standards (LKAS) by CA Sri Lanka every year. Further integrated reporting is also very new financial reporting mechanism for Sri Lankan companies. Currently, every company has to prepare and adopt integrated reporting especially public listed company should adopt and prepare integrated reporting in Sri Lanka. There are a number of opportunities and benefits by the adoption of the integrated reporting at the same time there is a number of challenges and disadvantages by the adoption of integrated reporting in any country as well as in Sri Lanka. This study is mainly based on accounting expert's perception on the implementation of integrated reporting in Sri Lanka. As an accounting professional need to increase the quality of financial reporting to meet the stake holders' expectation. There are two main qualitative characteristics of financial information such as fundamental qualitative characteristics and enhancing qualitative characteristics. Here fundamental qualitative characteristics cover relevance and faithful representation. Enhancing qualitative characteristics include comparability, verifiability, timeliness and understandability. Accounting professionals hope that the adoption of the integrated reporting will increase the enhancing qualitative characteristics of financial information. Financial reporting should include all materiality information. If any information impacts on the economic decision of the users, then such information should be considered as materiality information. CA Sri Lanka is a high level accounting professional body in Sri Lanka. CA Sri Lanka has formed a committee titled the Integrated Reporting Council in association with the International Integrated Reporting Council (IIRC) on 05 July 2016. This committee main aim is to enable

corporates and others interested to share knowledge on matters relating to the content, context, and implementation in Sri Lanka.

## II. LITERATURE REVIEW

### a) Theoretical Review

According to International Integrated Reporting Council (IIRC), integrated reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value. An Integrated Report should be an organization's primary reporting vehicle. International integrated reporting council is providing proper guidance and guidelines regarding integrated reporting adoption and implementation as globally. Integrated reporting includes several categories of capitals such as financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital and natural capital.

They are providing following guiding principles underpin the preparation and presentation of an integrated report such as strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness and consistency and comparability. An integrated report includes the following eight content elements such as organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, the basis of preparation and presentation, and in doing so, takes account of: and general reporting guidance.

### b) Empirical Review

Francesca (2018) stated that integrated reporting is a new communication tool that is gaining increasing attention among scholars, practitioners, and standard setters in both the private and public sectors. This study focuses some reflections based on case studies of public entities that differ regarding legal structures, locations, and business models to establish a strong legal and cultural requirement which is some common features exist. The main objective of this study was to discuss whether integrated reporting represents a new challenge for public sector organizations, specifically regarding their stakeholder engagement and their pursuit of greater accountability. This study was done through selected case studies. Case studies are examined through a theoretical framework based on the growing integrated reporting literature and specific objectives recognized by the integrated reporting framework. The Researcher found that there is no

sufficient support for public sector entities for it to be considered the primary reference for accountability purposes also researched suggested that integrated reporting may be considered a tool to enhance stakeholder engagement, improve accountability and in turn, gain legitimacy. The Researcher pointed out the implementation of integrated reporting and standard setters are aware of the relevance of this new tool and are working to provide better support for integrated reporting preparation.

Charl (2014) the main objective of this study was to synthesize insights from accounting and accountability research into the rapidly emerging field of integrated reporting and proposes a comprehensive agenda for future research in this area. This study covered upon and synthesizes academic analysis and insights provided in the embryonic integrated reporting academic literature in conjunction with policy pronouncements. This study found that the rapid development of integrated reporting policy, and early developments of practice, present theoretical and empirical challenges because of the different ways in which integrated reporting is understood and enacted within institutions.

Indra (2013) pointed out to outline the concept of integrated reporting and to propose a template for integrated reporting in organizations. Conceptual model was founded on concepts proposed on integrated reporting by the King Report on Governance for South Africa (King III) and the International Integrated Reporting Council in the U.K. Findings of the study confirmed that the integrated report should explain the story of reaching the organization's vision, underpinned by its values, enacted by management, monitored by governance, and using facets of resources relating to financial capital, intellectual capital, social capital, and environmental capital. This study proposed an integrated reporting framework and provides an example of a template to be used in organizations.

Ranjita and Mohammad (2018) stated that Integrated Reporting (IR) stands for organizational reporting which is prepared for public disclosure and includes both financial and important non-financial information. Researchers pointed out the existing financial reporting standards are inadequate to address issues like the importance of intangible assets, corporate impacts on the environment, human health, societal conditions and corporate influence on the political process. They noted that traditional reporting model focuses on a relatively narrow account of the historical financial performance of the value creation process. This study focused on the degree of disclosure of Integrated Reporting requirements by the top eleven multinational companies of Bangladesh as per market capitalization. They used annual report content analysis; the findings show that the companies have lately started

providing non-financial information regarding the environment, society, and governance along with financial figures. Researchers found that they are still providing this information in disconnected strands and as a part of Corporate Governance or CSR disclosures instead of linking these to financial information and providing it as an integrated report.

Tudor (2016) noted that the emergence of integrated reporting had raised questions regarding the need for restructuring organizational reporting. The researcher stated this new system proposes interesting concepts around which the report revolves, respectively: the (six) capitals and value creation. The main objective of this study was to set the grounds for showing whether public sector reporting entities already have these concepts in focus in their practice and how close are their current annual reports to a standard integrated report. The study emphasized the main developments in public sector reporting and pinpoints the shift towards a balance between financial and non-financial elements. Further, this study covered on delineations for the integrated reporting fundamental concepts and outlined the basic model. The main findings of this study confirmed that the disclosure levels about the fundamental concepts of integrated reporting are high and the pool of data for the information required to compile an integrated report is consistent in the case of top universities. Further, there was still need for further guidance for certain elements of delineation regarding the fundamental concepts; the perspectives of implementing integrated reporting in these types of entities are promising.

Hugo and Macias (2017) evaluated the implementation of the integrated reporting (IR) framework in a group of Colombian enterprises. They used a multiple-case study in six enterprises that use the IR framework. Researchers conducted individual interviews of reporters and performed a documentary analysis. They found that few Colombian firms that use the IR framework all have ambitious expansion goals in the medium term.

Camilleri (2018) stated that organizations are increasingly disclosing financial and non-financial performance as they are encouraged to become more accountable and transparent to the providers of capital, and toward other interested parties. This study considered a critical review of key theoretical underpinnings that have anticipated the development of the corporations' integrated disclosures. This contribution posits that there are both costs and benefits for those organizations who intend using the integrated reporting framework. This study found that future avenues as it identifies knowledge gaps in the realms of the organizations' integrated reporting of capitals.

### III. RESEARCH OBJECTIVES

The main objective of this study is to examine the perception of accounting experts on the implementation of integrated financial reporting in Sri Lanka. Further, the followings are the sub-objectives of this study;

- To identify the major limitation on adoption of integrated financial reporting in Sri Lanka.
- To find out the most appropriate way to encourage integrated financial reporting in Sri Lanka.

### IV. METHODOLOGY

#### a) Sample

This study only considers accounting experts in Sri Lanka under the following four major categories such as academicians, auditors, professional accountants/ chief financial officers, accounting; special degree graduated students, undergraduate students and accounting related professional studies students in Sri Lanka. Researcher selected 25 people from each category for this study based on convenience sampling. This study covers 100 accounting experts in Sri Lanka. The response rate of this study is illustrated in Table 1.

Table 1: Sample size and response rate

Accounting Experts	Sent	Returned	Response Rate
Academician	25	14	56%
Auditors	25	09	36%
Professional Accountants/ CFO	25	09	36%
Professional Studies / Accounting Special Degree Students	25	12	48%
Total	100	44	44%

#### b) Data Source

This study is mainly based on primary data from accounting experts in Sri Lanka. The researcher developed 1-5 points Likert scale questionnaire. Then developed questionnaire used to collect data from accounting experts through Google form. Google survey

form is one of the user-friendly, very cost effective and green environment technique to collect data for primary data related studies. Further, the researcher collected relevant depth of theoretical and empirical knowledge from published research papers and CA and IIRC publications regarding integrated reporting.

c) *Hypothesis*

This study considers only one hypothesis based on the accounting experts perception in Sri Lanka.

$H_1$ : Accounting experts are perceived more opportunities and benefits for Sri Lankan companies through implementing integrated reporting in Sri Lanka.

d) *Data Analysis Strategies*

The researcher used descriptive analysis in this study with the help of latest SPSS version. Mainly descriptive analysis used to examine the mean value of

opportunities and benefits, challenges and disadvantages on the implementation of integrated reporting in Sri Lanka.

## V. DESCRIPTIVE ANALYSIS AND DISCUSSION

a) *Demographic Profiles of the Respondents*

Demographic profiles of the respondents are shown in the table 2, 3, 4 and 5. Demographic profiles cover age, gender, qualification and working experience of the respondents of the study.

Table 2: Age of the Respondents

Age	Number of Respondents	Response Rate
Below 30 years	22	50%
30-40 years	15	34%
40-50 years	06	14%
50-65 years	01	02%
Total	44	100%

According to above table it can be seen that 50 percentage respondents are below 30 years old in this study.

Table 3: Gender of the Respondents

Gender	Number of Respondents	Response Rate
Male	30	68%
Female	14	32%
Total	44	100%

Table 3 reveals that most of the respondents in this study are male.

Table 4: Qualification of the Respondents

Qualification	Number of Respondents	Response Rate
Professional Qualification	07	16%
Bachelor	19	43%
Master	13	30%
Doctorate	05	11%
Total	44	100%

According to above table it can be found that most of the respondents are having their bachelor degree in the respective field.

Table 5: Working Experience of the Respondents

Years	Number of Respondents	Response Rate
1-10 years	31	71%
10-20 years	08	18%
Above 20 years	05	11%
Total	44	100%

Respondents working experience is one to ten years in this study.

b) *Descriptive Analysis*

Table 6: Reliability Statistics (Cronbach's Alpha Test)

Questions	Number of Questions	Cronbach's Alpha
Opportunities and Benefits	17	0.883
Challenges and Disadvantages	17	0.837
Total	34	0.869



According to table 6 it can be seen that the score of Cronbach's Alpha range is 0.837 to 0.883. It reflects that validity of the data which is high level in this study.

*Table 7:* Perception of Accounting Experts on Implementation of Integrated Reporting in Sri Lanka

Survey Question Regarding Opportunities and Benefits on Implementation of Integrated Reporting in Sri Lanka.	Respondents Agreeing (percentage)
Integrated reporting is appropriate to achieve the true & fair view of the financial statements.	3.84
Implementation of integrated reporting will increase the transparency of the financial statements.	4.00
Implementation of integrated reporting will increase value of the organization.	4.11
Integrated reporting provides more financial and non-financial information rather than existing/traditional reporting.	4.36
Implementation of integrated reporting will increase the international comparability of financial statements.	4.09
The adoption of integrated reporting provides opportunity to increase local customers.	3.61
Implementation of integrated reporting will bring in more opportunities for accessing the global market for Sri Lankan Companies.	4.14
Implementation of integrated reporting will increase the understandability of financial statements.	4.18
Implementation of integrated reporting will increase the relevance of accounting information for economic decision making.	4.16
Implementation of integrated reporting will assure the greater accessibility to funds for Sri Lankan Companies.	3.70
Implementation of integrated reporting will provide the professional opportunities to Sri Lankan professionals across the globe.	4.05
Integrated reporting increase greater clarity on business issues and performance in Sri Lanka.	3.82
Integrated reporting increase corporate reputation in Sri Lanka.	3.98
Integrated reporting increase relationships between corporate management people and stakeholder of the companies.	4.16
Integrated reporting is a more efficient reporting in Sri Lanka.	3.82
Integrated reporting increase employee engagement.	3.75
Integrated reporting increase gross margins.	3.45
Average	3.95 or 79.1%
Survey Question Regarding Challenges and Disadvantages on Implementation of Integrated Reporting in Sri Lanka.	
Integrated reporting is complicated in comparison to existing Sri Lankan.	3.59
Integrated reporting cannot be accepted as global reporting as they have not been implemented across the globe.	3.16
Integrated reporting requires training for staff owing to its complexities.	4.18
Integrated reporting requires changes in the accounting process.	3.91
Integrated reporting requires significant changes in the Information Technology infrastructure.	4.07
Implementation of integrated reporting will increase the volatility in company's earnings.	3.66
Implementation of integrated reporting will require too much disclosure of financial information and non-financial information which is troublesome.	3.59
IIRC's integrated reporting frame work, recommendation and application are generally difficult to apply.	3.20
Implementation of integrated reporting will entail the huge cost in terms of training of staff, financial information, non-financial information and preparation.	3.82
IIRC's integrated reporting frame work is rule based.	3.50
Regular changes in reporting framework like integrated reporting cannot be adopted in Sri Lanka.	3.14
Implementation of integrated reporting will require the major changes in various existing laws, accounting policies, concepts and reporting preparation.	3.57
There is no proper awareness and training regarding integrated reporting in Sri Lanka.	3.77
Integrated reporting is not much needed for Sri Lankan companies.	2.55
Integrated reporting framework's eight elements provide all the areas of the companies.	3.41
Integrated reporting provides un-necessary information to economic decision makers of the companies.	2.59
Integrated reporting cannot be applied for next 10 – 20 years in Sri Lanka.	2.43
Average	3.42 Or 68.4%

Table 7 reveals the average value of the respondents for opportunities and benefits, challenges and disadvantages on the implementation of integrated reporting in Sri Lanka. It can be seen the average respondents' value is 79.1 percentages for opportunities and benefits on the implementation of integrated reporting in Sri Lanka. Average value of respondents is 68.1 percentage for challenges and disadvantages on the implementation of integrated reporting in Sri Lanka. Sri Lankan accounting experts feel that there are more opportunities and benefits on the implementation of integrated financial reporting rather than challenges and disadvantages according to the analysis of the study. According to the results of this study *H<sub>1</sub> is accepted*.

## VI. CONCLUSION AND RECOMMENDATIONS

Convert from traditional reporting into integrated reporting is not an easy task. There are a number of countries they are following integrated reporting in the current world. Also, there is a strong committee to provide guidance and framework for the integrated reporting which is international integrated reporting committee (IIRC). There are opportunities, benefits, challenges and disadvantages on the implementation of integrated reporting. Sri Lankan accounting experts confirmed that there are more opportunities and benefits rather than challenges and disadvantages on the implementation of integrated reporting in Sri Lanka. Further they perceived that 68.4 percentages challenges and disadvantages on the other hand 78.1 percentage opportunities and benefits on the implementation of integrated reporting in Sri Lanka. It can be seen that there is no much deviation. Open ended question of this study, revealed that lack of awareness and knowledge regarding are the major limitation on the implementation of the integrated in Sri Lanka. Also Sri Lankan accounting experts suggested that there should be needed proper training program for the internal and external stakeholders of the company to increase and improve awareness and knowledge on integrated reporting which will lead to the high level integrated reporting practices in Sri Lanka. Finally, it can be concluded that there is more opportunities and benefits for every organization by adoption of integrated reporting in Sri Lanka. Professional institutions, universities, other relevant public and private institutions should try to give proper training to create awareness and knowledge on integrated reporting in Sri Lanka.

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