



# Technical Assistance Report

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Project Number: 47161-001  
Regional—Policy and Advisory Technical Assistance (R-PATA)  
December 2013

## Public Sector Accounting Standards (Fifth Phase)

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
IASB	–	International Accounting Standards Board
IFAC	–	International Federation of Accountants
IPSAS	–	International Public Sector Accounting Standards
IPSASB	–	International Public Sector Accounting Standards Board
TA	–	technical assistance

## TECHNICAL ASSISTANCE CLASSIFICATION

<b>Type</b>	–	Regional—Policy and advisory technical assistance (R-PATA)
<b>Targeting classification</b>	–	General intervention
<b>Sector (subsector)</b>	–	Public sector management (public expenditure and fiscal management)
<b>Themes (subthemes)</b>	–	<b>Governance</b> (economic and financial governance), capacity development (institutional development)
<b>Location (impact)</b>	–	Regional (medium)
<b>Partnerships</b>	–	World Bank, Government of Canada, Chartered Professional Accountants of Canada, Government of the People’s Republic of China, and Government of New Zealand

## NOTE

In this report, “\$” refers to US dollars.

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## I. INTRODUCTION

1. The International Public Sector Accounting Standard Board (IPSASB) is a standards-setting body operating under the International Federation of Accountants (IFAC).<sup>1</sup> The principal activity of the IPSASB is to develop financial reporting standards for public sector entities, with the aim of moving toward full-fledged accrual accounting for both developed and developing countries. The IPSASB plays a critical role in enhancing the quality and transparency of public sector financial reporting; promoting adoption of, or convergence with, the International Public Sector Accounting Standards (IPSAS); and providing guidance for first-time adoption of IPSAS in the public sector.

2. The Asian Development Bank (ADB) has been providing regional technical assistance (TA) for IPSASB's work program since 1997 (in four phases).<sup>2</sup> IFAC has requested ADB and its other development partners to continue financing its ongoing initiatives of IPSAS development. Recognizing that the development of a high-quality financial reporting standard is a long-term process, the developing partners continue to support IPSASB, along with IFAC, which remains the largest fund provider.

3. Following the successful completion of the first four phases, this TA proposes to support the IPSASB work program for 2013 to 2015. The strategic priorities of the program are (i) developing a public sector conceptual framework, (ii) developing standards and guidance on public sector critical projects, and (iii) communicating and promoting the adoption and implementation of IPSAS.

4. The TA aims to facilitate, in the long run, accounting policy reform, accountability, and capacity strengthening in ADB's developing member countries (DMCs); and to improve the public sector accounting system. Improvements in public sector accounting standards will be instrumental for DMCs to achieve good governance. This is consistent with ADB's Strategy 2020<sup>3</sup> and its development agenda on good governance, anticorruption, and an enhanced government financial management system.

## II. ISSUES

5. At completion of the fourth phase of the TA, the IPSASB identified three strategic themes that will guide its activities during 2013 to 2015. The projects below need to be finalized as a priority.

- (i) **Developing public sector conceptual framework.** As the IPSASB's most important project, developing a public sector conceptual framework is critical to establish credibility as the international public sector accounting standard setter.

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<sup>1</sup> IFAC, a global organization for the accountancy profession, was established in 1973 and was formally approved by the International Congress of Accountants in 1977. The IFAC board established the public sector committee in 1986 to issue pronouncements on accounting, auditing, and reporting in the public sector. Effective 10 November 2004, the IPSAS board replaced the public sector committee.

<sup>2</sup> ADB. 1997. *Technical Assistance for Government Accounting Standards*. Manila (TA 5748-REG, for \$245,000); ADB. 2002. *Technical Assistance for Government Accounting Standards (Second Phase)*. Manila (TA 6052-REG, for \$245,000); ADB. 2006. *Technical Assistance for Public Sector Accounting Standards (Third Phase)*. Manila (TA 6336-REG, for \$245,000); ADB. 2009. *Technical Assistance for Public Sector Accounting Standards (Fourth Phase)*. Manila (TA 7447-REG, for \$300,000).

<sup>3</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

The framework will provide concepts, definitions, and principles that will underpin the development of the IPSAS.

- (ii) **Other public sector critical projects.** The IPSASB continues to develop standards and guidance in areas considered critical for the public sector. Projects include public sector specific reporting issues where there is no equivalent accounting standard in the private sector (e.g., reporting on the long-term sustainability of public finances), and convergence with statistical bases. Maintaining the quality of the existing standards and adequate ongoing resources is also an important issue.<sup>4</sup>
- (iii) **Promoting adoption and implementation of International Public Sector Accounting Standards.** Over the past 5 years, adoption of the IPSAS has been a growing trend around the world. Over 80 countries have either adopted or have processes in place to adopt the IPSAS. As a result, significant resources are needed for outreach activities and communication programs. For instance, the IPSASB issued a study guide intended to provide additional resources for IPSAS adopters. IFAC is developing a comprehensive training course and teaching materials as part of its adoption and implementation initiative. These will be the first steps toward capacity development in DMCs, where it is generally considered insufficient to fully implement the accrual basis IPSAS.

6. In addition to the priority projects, the current environment highlights the urgency for robust financial reporting standards in the public sector. Recent sovereign debt crises around the world are a result of poor financial management and public sector financial reporting. Lack of reliable information about government finances is an area of major concern, leading to growing demands for improved government financial reporting, government accountability, and sustainability of key government programs. High-quality public accounting standards, adoption, and implementation guidance must be developed to address these fundamental issues.

7. Governments that report on a cash basis do not account for significant liability, such as pensions and infrastructure development. The IPSASB encourages public sector entities to adopt the accrual basis of accounting, which will improve financial management and increase transparency, resulting in a more comprehensive and accurate view of a government's financial position. A significant number of DMCs that use cash basis national standards have plans to adopt or are in transition toward accrual basis IPSAS. To date, 33 countries in Asia and the Pacific and nine non-regional ADB member countries have adopted or are adopting accrual-based IPSAS, or converging their national standards to the IPSAS-based accounting framework.<sup>5</sup>

8. One of the major achievements of the prior phases of the TA is the successful funding of the standards programs. Since the standards development work began in 1997, 32 accrual

<sup>4</sup> International Public Sector Accounting Standards Board Work Plan, 2013-2015 (supplementary appendix, available upon request).

<sup>5</sup> The following countries in Asia and the Pacific have adopted or are adopting the IPSAS: Afghanistan; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Cambodia; the People's Republic of China; the Fiji Islands; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; the Republic of Korea; the Kyrgyz Republic; the Lao People's Democratic Republic; Malaysia; the Maldives; Mongolia; Nepal; New Zealand; Pakistan; the Philippines; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Turkmenistan; Uzbekistan; Vanuatu; and Viet Nam. The following non-regional member countries of ADB have adopted or are adopting or converging to the IPSAS: Austria, Canada, France, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

standards and one cash-basis standard have been issued. The first phase of convergence project with the International Financial Reporting Standards was completed in 2009. This set the stage for the next phase of the work program, which focused on public sector projects. A major lesson learned from prior phases is that capacity building in the DMC public accounting profession continues to be a challenge in moving toward full accrual basis accounting, and requires robust system support to accommodate implementation. This is foreseen as a long-term process, requiring ADB's continued support. The TA will closely monitor the progress of the IPSASB's work programs as well as DMCs' initiatives toward the adoption of accrual basis IPSAS.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Impact and Outcome**

9. The impact of this TA will be improved public financial reporting and management in DMCs, which will result in improved governance, accountability, and transparency in public sector financial reporting and accounting systems.

10. The outcome will be increased adoption of IPSAS (or IPSAS-based accounting framework) by DMCs. This will include progress made in full or partial adoption, or convergence of national public sector accounting standards with the IPSAS.

#### **B. Methodology and Key Activities**

11. The outcome will be achieved through the following outputs: (i) development of new IPSAS and enhancement of existing IPSAS, (ii) development of public sector conceptual framework, and (iii) development of long-term capacity building programs to promote the IPSAS and strengthen the accountancy profession.

12. Issuance of the finalized IPSAS, especially those considered critical for the public sector, together with a robust public sector conceptual framework, will provide a foundation for governments and jurisdictions to benchmark and improve their existing financial management framework. Long-term capacity building programs—such as training, guidance, and other resources to aid implementation of the IPSAS—are paramount for DMC governments to consider adoption of, or convergence with, the IPSAS.

13. The key activities of the fifth phase of the TA are to (i) develop consultation papers and exposure drafts of the new IPSAS in the pipeline (contained in the supplementary appendix) for public comments; (ii) review and enhance the existing IPSAS; (iii) finalize the pending final chapters of the public sector conceptual framework; (iv) implement communication strategies to promote the IPSAS; and (v) continue collaboration with IFAC, the International Accounting Standards Board (IASB), and other national standard setters to develop capacity development programs that will strengthen the global accounting profession.

14. As the IPSASB is competent in the subject area, no major technical project risks are expected. However, since the scope of work will expand with limited resources, the IPSASB may not be able to allocate sufficient resources to certain projects that may have particular importance to DMC governments. Such risk will be mitigated through prioritization of critical projects and public consultation on the IPSASB's work program.

15. ADB is one of six donors that will finance the IPSASB budget to carry out the work plan of the fifth phase. IFAC remains the largest financier of the IPSASB, funding over 65% of the total estimated costs. Collaboration carries the risk that the IPSASB work plan may become unsustainable if any donor fails to commit its funding.<sup>6</sup> Such risk is mitigated by obtaining a representation letter from IFAC stating that the other donors, along with ADB, are committed to their funding for the period and that any shortfall will be covered by IFAC's own resources.

### **C. Cost and Financing**

16. The TA is estimated to cost \$6,844,000, of which \$300,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V).

17. Other organizations providing parallel financing on a grant basis of \$1,957,500 are (i) the World Bank, \$187,500; (ii) the Government of Canada, \$600,000; (iii) CPA Canada (formerly the Canadian Institute of Chartered Accountants), \$525,000; (iv) the Government of the People's Republic of China, \$420,000 (in kind); and (v) the Government of New Zealand, \$225,000. IFAC will provide the remaining funding requirement of \$4,586,500. Appendix 2 contains the cost estimates and financing plan.

### **D. Implementation Arrangements**

18. IFAC will be the executing agency for the TA. As ADB will contribute only 4.4% of the IPSASB 2013-2015 work program budget, it would be efficient to use IFAC's organizational and administrative procedures. For the previous four phases of the TA, the procurement arrangements were such that all services<sup>7</sup> to be financed out of ADB funds were procured in accordance with the standard procedures of IFAC. No goods or consulting services are anticipated to be procured under this TA. ADB funds will be used to finance expenditures related to international travel of IPSASB members and meetings, conferences, seminars, workshops conducted by IFAC and other administrative support costs. IFAC will ensure that these expenditures are incurred in the territories of ADB member countries and for services and facilities supplied from such territories with due consideration of economy and efficiency. These arrangements have proven to work well and will continue in this phase. IFAC will implement the TA through the IPSASB.

19. TA implementation will commence in December 2013 and is expected to be completed in October 2016. The ADB funds will be released in three installments, each amounting to \$100,000. The first installment will be released upon receipt by ADB of the TA Letter Agreement countersigned on behalf of IFAC. The two subsequent installments will be released based on the submission of (i) a financial statement of accounts, showing the use of grant funds from various funding agencies; (ii) audited financial statements of IFAC, with supplementary information on the IPSASB projects; and (iii) an annual progress report on the project activities supported by the TA. IFAC will maintain separate records of ADB financing, and provide the following to ADB within 6 months of the fiscal year in which the funds are utilized: an annual progress report and audited financial statements.

20. ADB will maintain an observer status in IPSASB meetings. The Controller's Department will monitor and oversee the TA activities, and provide, as needed, direct input to the work of

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<sup>6</sup> ADB does not administer other donors' funds that are not channeled through ADB. As such, this is a collaboration and is not considered a cofinancing arrangement.

<sup>7</sup> Those services did not include consulting services.



IPSASB by reviewing the consultation papers and exposure drafts, and ensuring that ADB member countries' comments are addressed before the final standards and guidelines are issued.

#### **IV. THE PRESIDENT'S DECISION**

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding \$300,000 on a grant basis for Public Sector Accounting Standards (Fifth Phase), and hereby reports this action to the Board.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved public sector financial reporting management and enhanced accountability and transparency in public sector financial reporting and accounting systems</p>	<p>Increased number of DMCs adopting IPSAS or IPSAS-based standards</p>	<p>IFAC annual progress reports on IPSASB</p>	<p><b>Assumption</b> IPSASB is competent in this area and will deliver the required results</p>
<p><b>Outcome</b> Adoption of IPSAS or IPSAS-based accounting framework by DMCs</p>	<p>Number of DMCs adopting IPSAS-based standards increases</p> <p>Number of DMCs adopting IPSAS or converging national public sector accounting standards to IPSAS increases</p>	<p>IFAC annual progress reports</p> <p>IFAC annual financial statements</p> <p>IFAC audit report</p> <p>IFAC completion report</p> <p>IPSASB website listing countries that have adopted or are adopting IPSAS</p>	<p><b>Assumption</b> IPSASB is committed to achieving the TA goals</p> <p><b>Risk</b> Capacity development is a long-term process and no immediate benefit could be achieved</p>
<p><b>Outputs</b></p> <p>(i) Development and enhancements of accrual basis IPSAS</p> <p>(ii) Development of public sector conceptual framework</p> <p>(iii) Development of long-term capacity building programs to promote IPSAS and strengthen the accountancy profession</p>	<p>Issuance of new IPSAS</p> <p>Existing IPSAS revised and improved</p> <p>Conceptual framework published</p> <p>Number of government officials accredited after IPSAS training courses</p>	<p>IPSASB accounting standards documents</p> <p>IPSASB project records</p> <p>IPSASB accounting standards training records</p>	<p><b>Assumption</b> Funds are available for IPSASB to carry out its work plan for the next 3 years</p> <p><b>Risk</b> Capacity development program is reduced or deferred because of lack of financing</p>

<b>Activities with Milestones</b>	<b>Inputs</b>
<b>1. Development of New IPSAS and Revisions to Existing IPSAS</b>	ADB: \$300,000 (TASF-V)
1.1 IPSAS and government finance statistics reporting (December 2013)	
1.2 First-time adoption of accrual basis IPSAS (September 2014)	
1.3 Reporting service performance information (December 2014)	World Bank: \$187,500
1.4 Public sector financial instruments (2015)	
1.5 Public sector combinations (2015)	Government of Canada: \$600,000
1.6 Revision of IPSAS 6–8 (December 2014)	
1.7 Government business enterprises (2015)	
1.8 Amendments to IPSAS 28–30 (to be determined based on IASB)	CPA Canada (formerly Canadian Institute of Chartered Accountants): \$525,000
1.9 Improvements to existing IPSAS (2015)	
1.10 Emissions trading schemes (2015)	
1.11 Social benefits (2015)	
<b>2. Development of public sector conceptual framework</b>	Government of the People's Republic of China: \$420,000 (in kind)
2.1 Elements and recognition (March 2014)	
2.2 Measurement (March 2014)	
2.3 Presentation (March 2014)	Government of New Zealand: \$225,000
2.4 Preface (March 2014)	
<b>3. Development of long-term capacity building programs to promote IPSAS and strengthen the accountancy profession</b>	IFAC: \$4,586,500
3.1 Develop IPSASB communication plan (continuous 2013–2015)	
3.2 Liaise continuously between IFAC, IASB, and national standards setters (continuous 2013–2015)	Total: \$6,844,000
3.3 Hold seminars, conferences, and workshops worldwide (2013–2015)	
3.4 Develop a comprehensive training course for implementation of accrual IPSAS (June 2014)	

ADB = Asian Development Bank, DMC = developing member country, IASB = International Accounting Standards Board, IFAC = International Federation of Accountants, IPSAS = International Public Sector Accounting Standards, IPSASB = International Public Sector Accounting Standards Board, TA = technical assistance, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Amount
<b>A. Cost Estimates</b>	
1. IPSASB technical inputs <sup>a</sup>	5,665.5
2. International travel	773.5
3. Meetings, conferences, seminars, and workshops	226.0
4. Miscellaneous administrative and other support costs <sup>b</sup>	179.0
<b>Total (A)</b>	<b>6,844.0</b>
<b>B. Financing Plan</b>	
1. ADB <sup>c</sup>	300.0
2. World Bank <sup>d</sup>	187.5
3. Government of Canada <sup>e</sup>	600.0
4. CPA Canada <sup>f</sup>	525.0
5. Government of the People's Republic of China <sup>g</sup> (in kind)	420.0
6. Government of New Zealand <sup>h</sup>	225.0
7. IFAC <sup>i</sup>	4,586.5
<b>Total (B)</b>	<b>6,844.0</b>

ADB = Asian Development Bank, CPA Canada = Chartered Professional Accountants of Canada, IFAC = International Federation of Accountants, IPSASB = International Public Sector Accounting Standards Board.

<sup>a</sup> Technical inputs represent the employee's cost of 6.6 full-time staff of IPSASB.

<sup>b</sup> Administrative support to the offices of the IPSASB in Toronto and Melbourne, including operational expenses and updating the translation of the IFAC Handbook on Public Sector Accounting.

<sup>c</sup> Financed by ADB's Technical Assistance Special Fund (TASF-V) to finance the costs of technical assistance related to international travel; meetings, conferences, seminars, and workshops; and administrative and other support costs. IPSASB technical inputs costs will be excluded. ADB will finance \$300,000 of the total IPSASB budget and does not administer other donors' funds; as such, this is not a cofinancing arrangement.

<sup>d</sup> The World Bank has indicated it will be phasing out funding; \$187,500 has been committed for 2013 and 2014.

<sup>e</sup> Subject to annual review, although IFAC anticipates receiving funding indefinitely.

<sup>f</sup> CPA Canada (formerly the Canadian Institute of Chartered Accountants) reimburses IFAC for the costs of one staff member, subject to annual review. IFAC anticipates receiving this support indefinitely.

<sup>g</sup> In-kind support by seconding a staff member from the Ministry of Finance to work with the IPSASB in Toronto.

<sup>h</sup> Tied to conceptual framework project, but is an annual donation. No agreement exists, but IFAC anticipates receiving this donation indefinitely.

<sup>i</sup> The IFAC board has agreed to the IPSASB work program and budget and is fully informed of its state of finances, and will either commit to fund any shortfall in funding from its own resources (if available), or curtail IPSASB's work program. The IFAC board is seeking funding assistance from other multilateral development banks, private foundations, and national governments.

