



# Technical Assistance Report

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Project Number: 50283-001  
Regional—Policy and Advisory Technical Assistance (R-PATA)  
November 2016

## Public Sector Accounting Standards (Sixth Phase)

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
IASB	–	International Accounting Standards Board
IFAC	–	International Federation of Accountants
IFRS	–	International Financial Reporting Standards
IPSAS	–	International Public Sector Accounting Standards
IPSASB	–	International Public Sector Accounting Standards Board
RPG	–	recommended practice guideline
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the International Federation of Accountants ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

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## POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50283-001</b>	
<b>Project Name</b>	Public Sector Accounting Standards (Sixth Phase)	<b>Department /Division</b>	CTL/CTOC
<b>Country</b>	REG	<b>Executing Agency</b>	Int'l Public Sector Acctg Stds Board, IFAC
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
Public sector management	Public expenditure and fiscal management		0.33
		<b>Total</b>	<b>0.33</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional systems and political economy	No gender elements (NGE)	✓
Partnerships (PAR)	Official cofinancing Regional organizations		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG17		
<b>6. TA Category:</b>	B		
<b>7. Safeguard Categorization</b>	Not Applicable		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.33</b>	
Policy and advisory technical assistance: Technical Assistance Special Fund		0.33	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>0.33</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems	No		
Use of country public financial management systems	No		

## I. INTRODUCTION

1. The International Public Sector Accounting Standards Board (IPSASB) is a standards-setting body operating under the International Federation of Accountants (IFAC).<sup>1</sup> The main activity of the IPSASB is to develop financial reporting standards for public sector entities, with the aim of moving toward full-fledged accrual-based 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 the 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 five phases).<sup>2</sup> IFAC has requested ADB and its other development partners to continue financing its ongoing initiatives for IPSAS development. Recognizing that the development of a high-quality financial reporting standard is a long-term process, the development partners continue to support the IPSASB, along with IFAC, which remains the largest fund provider.

3. Following the successful completion of the first five phases, this regional policy and advisory TA<sup>3</sup> proposes to support the IPSASB work program for 2016–2018, with high priorities assigned to the development of high-quality public sector financial reporting standards and other publications for the public sector, and to raise awareness of IPSAS and the benefits of their adoption (Appendix 1). It aims to facilitate, in the long run, accounting policy reforms, 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>4</sup> and its development agenda on good governance, anticorruption, and an enhanced government financial management system.

## II. ISSUES

4. At the completion of the fifth phase of the TA, the IPSASB identified the following key development issues during 2016–2018:

- (i) **Developing high-quality public sector financial reporting standards and other publications for the public sector.** Credible and transparent financial reporting is in the public interest. It has the potential to improve decision-making in the public sector, help governments to be more accountable to their citizens, and enhance global fiscal stability and sustainability. As the international

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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 IPSASB 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); ADB. 2013. *Technical Assistance for Public Sector Accounting Standards (Fifth Phase)*. Manila (TA 8542-REG for \$300,000).

<sup>3</sup> The TA first appeared in the business opportunities section of ADB's website on 24 October 2016.

<sup>4</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

standard setter for the public sector, the IPSASB's role is to provide governments and other public sector organizations with high-quality financial reporting standards and other publications that will enhance public financial management. This will include accrual-based IPSAS and recommended practice guidelines (RPGs). By developing accrual-based IPSAS and RPGs, the IPSASB will be assisting governments to reflect the full economic reality of transactions, and provide a comprehensive picture of the financial performance and position of public entities. This addresses a fundamental aspect of strengthening public financial management and enhancing accountability and decision-making in the public sector.

- (ii) **Raising awareness of the International Public Sector Accounting Standards and the benefits of their adoption.** To raise awareness of IPSAS and the benefits of their adoption, the IPSASB continues to believe that a strong outreach program is important. The IPSASB has dedicated significant resources to outreach activities to date, and intends to continue these efforts. The activities will focus on persuading governments to prepare accrual-based financial reports using IPSAS, and encouraging users of government financial reports to demand better information from governments—information that would be available by reporting in accordance with IPSAS. The IPSASB also considers additional ways to engage with stakeholders to establish credible feedback mechanisms. As adoption increases, obtaining feedback from adopters of IPSAS to address emerging issues is becoming more important. Examples include enhancing efforts using technology, such as webcasts and podcasts, and co-organizing annual meetings of public sector national standard setters.

5. A key challenge for public sector financial reporting is that many governments still use cash-based accounting, so they provide minimal disclosure compared with what stakeholders expect from the private sector.<sup>5</sup> Cash-based reporting has limitations, as it does not provide accurate and complete information on all financial transactions, assets and liabilities, and revenues and expenses. The IPSASB encourages public sector entities to adopt accrual-based accounting, which will improve financial management and increase transparency, resulting in a more comprehensive and accurate view of a government's financial position; and provide a better basis for decision-making at different levels of government.<sup>6</sup> It also highlights the importance of capacity building in the public sector as a prerequisite for effective implementation of an accrual-based accounting system.

6. Extensive activities have been achieved in the prior five phases. As of 31 December 2015, 34 accrual-based IPSAS and one cash-based IPSAS were available for the use of public sector entities, including ADB's DMCs. During phase five, six IPSAS and three RPGs were approved. IPSASB also fulfilled one of its key strategic objectives in completing its public sector conceptual framework, carried out its first public consultation on its strategy and work plan, and established oversight infrastructure. 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-based accounting. This requires robust system support that can accommodate implementation, and is a long-term process with limited immediate benefits to DMCs. The

<sup>5</sup> Cash-based accounting is a method of accounting where transactions are recorded when cash receipts and cash payments occur. Thus, revenue is recorded when cash is received from customers, and expenses are recorded when cash is paid to suppliers and employees.

<sup>6</sup> Under accrual-based accounting, transactions and economic events are recorded when they occur, regardless of when cash receipts and cash payments happen.

IPSASB also needs to engage constantly with stakeholders to promote the benefits of sound public financial management through the adoption of IPSAS.

7. IPSAS provide the foundation for achieving the long-term objectives of moving to full accrual-based accounting in the future for both developed and developing countries, and for improving the quality and reliability of accounting and financial reporting for the public sector. Interest in IPSAS is increasing and a strong trend is moving toward their adoption; this trend is anticipated to continue. Over 80 countries and several international organizations have either adopted or have processes in place to adopt IPSAS.

8. With the progress made in the first five phases, the IPSASB is seeking support through further TA for 2016–2018.

### **III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE**

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

9. The impact of this TA will be strengthened public sector financial reporting and management through increased adoption of accrual-based IPSAS.

10. The outcome will be improved decision-making and accountability of public sector entities and enhanced global fiscal stability and sustainability.

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

11. The outcome will be achieved through the following outputs: (i) high-quality financial reporting standards and other publications for the public sector, and (ii) programs to raise awareness of IPSAS and their public finance management benefits in order to influence their adoption.

12. The key activities of the sixth phase of the TA are (i) the development of new IPSAS and revisions to existing IPSAS; (ii) a biennial improvement project that includes amendments arising from the completion of the conceptual framework, general improvements to the International Financial Reporting Standards (IFRS), and changes relating to statistical accounting; (iii) annual publication of the IPSASB handbook, which contains all IPSASB pronouncements on IPSAS; and (iv) capacity-building programs such as conducting outreach activities (holding presentations, speeches, seminars, conferences, and others), establishing feedback mechanisms, and continuous liaison with the IFAC, the International Accounting Standards Board (IASB), and national standard setters.

13. As the IPSASB is competent in the subject area, no major technical project risks are expected. However, the IPSASB needs to balance financial reporting needs for the public sector with constraints faced by IPSASB and stakeholders, considering limitations on resources that are engaged in existing commitments and assessing potential projects. As oversight changes are implemented, demands on staff will be higher. Because of this, the IPSASB may not be able to allocate sufficient resources to projects that may be important to the DMC governments. Such a risk is mitigated through the prioritization of critical projects and by conducting a comprehensive review of the IPSASB's broad strategic direction, including public consultation on its work program.

14. ADB is one of the donors that will finance the IPSASB budget to carry out the work plan of the sixth phase. IFAC remains the largest financier of the IPSASB, funding about 75% 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>7</sup> Such risk is mitigated by obtaining assurance 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**

15. The TA is estimated to cost \$7,083,000, of which \$330,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V).

16. Other organizations providing parallel cofinancing on a grant basis totaling \$1,455,000 are (i) the Government of Canada \$480,000; (ii) Chartered Professional Accountants of Canada \$480,000; (iii) the Government of New Zealand \$225,000; (iv) the New Zealand External Reporting Board \$140,000 (in kind); and (v) the United States Governmental Accounting Standards Board \$130,000 (in kind). IFAC will provide the remaining funding requirement of \$5,298,000. ADB will not administer the funds from these external sources. Appendix 2 contains the cost estimates and financing plan.

### **D. Implementation Arrangements**

17. IFAC will be the executing agency for the TA. As ADB will contribute only 4.7% of the IPSASB 2016–2018 work program budget, it is efficient to use IFAC's organizational and administrative procedures. For the previous five phases of the TA, the procurement arrangements were such that all services to be financed out of ADB funds were procured in accordance with IFAC standard procedures.<sup>8</sup> 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 worked well in the last five phases of the TA, and the same arrangements will be implemented in this sixth phase. IFAC will implement this TA through the IPSASB, which will ensure that the expected outputs are disseminated to the public sector through the publication of new and revised IPSAS and outreach activities to engage with stakeholders.

18. TA implementation will begin in December 2016 and is expected to be completed in December 2018. ADB funds will be released in three installments, each amounting to \$110,000, and disbursements will be in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The first installment will be released upon receipt by ADB of the TA letter agreement countersigned by 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

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<sup>7</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>8</sup> Those services did not include consulting services.



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.

19. ADB will maintain an observer status in IPSASB meetings and is a member of the IPSASB Consultative Advisory Group. The ADB Controller's Department will monitor and oversee the TA activities, and provide, as needed, direct input to the work of the 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**

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$330,000 on a grant basis for Public Sector Accounting Standards (Sixth Phase), and hereby reports this action to the Board.

## DESIGN AND MONITORING FRAMEWORK

<b>Impact the TA is Aligned with:</b>			
Strengthened public sector financial reporting and management globally through increasing adoption of accrual-based IPSAS			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Outcome</b> Improved decision-making and accountability of public sector entities and enhanced global fiscal stability and sustainability	a. Number of DMCs adopting IPSAS or converging national public sector accounting standards to IPSAS increased	a. IPSASB annual progress reports b. IPSASB annual financial statements c. IPSASB audit report d. IPSASB completion report e. IPSASB website provides a list of countries that have adopted or are adopting IPSAS	Capacity development is a long-term process and no immediate benefit is achieved.  Capacity development program is reduced or deferred because of lack of financing.
<b>Outputs</b> 1. High-quality financial reporting standards and other publications for the public sector developed  2. Programs designed to raise awareness of IPSAS and their public financial management benefits in order to influence their adoption	1a. Issuance of new IPSAS and other publications  1b. Existing IPSAS revised and improved  2a. Presentations, speeches, and other outreach activities to engage with stakeholders	1a. IPSASB accounting standards documents  2a. IPSASB project records	Resource limitations considering existing commitments, potential projects, and oversight changes that will be implemented  Capacity development is a long-term process and no immediate benefit is achieved.  Capacity development program is reduced or deferred because of lack of financing.
<b>Key Activities with Milestones</b>			
<b>1. High-quality financial reporting standards and other publications for the public sector developed</b>			
1.1 Development of new IPSAS and revisions to existing IPSAS			
1.1.1 Completion of final IPSAS for public sector combinations (March 2017)			
1.1.2 Review of cash-based IPSAS (June 2017)			
1.1.3 Update to IPSAS 28–30 on financial instruments (March 2018)			
1.1.4 Discussion of issues and completion of IPSAS for leases (June 2018)			
1.1.5 Completion of final IPSAS for social benefits (September 2018)			
1.1.6 Completion of final IPSAS for public sector specific financial instruments (December 2018)			
1.2 Improvements project: biennial project (continuous 2016–2018)			
1.2.1 Consequential amendments arising from the completion of the conceptual framework			
1.2.2 General improvements to the IFRS			
1.2.3 Changes intended to eliminate or narrow differences with statistical accounting			
1.2.4 Consequential amendments arising from changes to the IFRS			
1.3 IPSASB handbook: annual publication containing all IPSASB pronouncements on IPSAS			

**2. Programs designed to raise awareness of IPSAS and their public financial management benefits in order to influence their adoption**

- 2.1 Capacity- building programs (continuous 2016–2018)  
 2.1.1 Holding of presentations, speeches, seminars, conferences, and other outreach activities  
 2.1.2 Establishment of credible feedback mechanisms  
 2.1.3 Continuous liaison among IFAC, IASB, and national standard setters

**Inputs**

ADB: \$330,000  
 Government of Canada: \$480,000  
 Chartered Professional Accountants of Canada: \$480,000  
 Government of New Zealand: \$225,000  
 New Zealand External Reporting Board: \$140,000 (in kind)  
 United States Governmental Accounting Standards Board: \$130,000 (in kind)  
 IFAC: \$5,298,000  
 Total: \$7,083,000

**Assumptions for Partner Financing**

Not applicable.

ADB = Asian Development Bank, DMC = developing member country, IASB = International Accounting Standards Board, IFAC = International Federation of Accountants, IFRS = International Financial Reporting Standards, IPSAS = International Public Sector Accounting Standards, IPSASB = International Public Sector Accounting Standards Board, TA = technical assistance.

Sources: Asian Development Bank; International Federation of Accountants.

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

Item	Amount
<b>Asian Development Bank<sup>a</sup></b>	
1. International travel	200
2. Meetings, conferences, seminars, and workshop	100
3. Miscellaneous administrative and support costs <sup>b</sup>	30
<b>Total</b>	<b>330</b>

## Notes:

- (i) The technical assistance is estimated to cost \$7,083,000, of which contributions from the Asian Development Bank is presented in the table above. Other organizations providing parallel cofinancing on a grant basis totaling \$1,455,000 are the following:
- (a) Government of Canada, \$480,000: The Government of Canada funding has been renewed for the five-year period (2016–2020).
  - (b) Chartered Professional Accountants of Canada, \$480,000: Chartered Professional Accountants of Canada reimburses IFAC for the costs of one staff member, subject to annual review; IFAC anticipates receiving this support indefinitely.
  - (c) Government of New Zealand, \$225,000: Annual donation. No agreement is in place, but the International Federation of Accountants (IFAC) anticipates the continued receipt of this funding, which is related to the convergence of IPSAS with International Financial Reporting Standards as appropriate.
  - (d) New Zealand External Reporting Board, \$140,000 (in kind): In-kind staff support on projects on revenue and impairment of revalued assets.
  - (e) United States Governmental Accounting Standards Board, \$130,000 (in kind): In-kind staff support on project on non-exchange expenses.
- (ii) IFAC will provide the remaining funding requirement of \$5,298,000. IFAC's board has agreed to the International Public Sector Accounting Standards Board (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. IFAC's board continues to seek funding assistance from other multilateral development banks, private foundations, and national governments.

<sup>a</sup> Financed by Asian Development Bank's Technical Assistance Special Fund (TASF-V).

<sup>b</sup> Administrative support to the IPSASB office in Toronto, including operational expenses and updating of the translation of the *IFAC Handbook of International Public Sector Pronouncements*.

Source: International Federation of Accountants.