

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. These issues and associated recommendations are consistent with those identified by the subsequent World Bank review of Philippine Corporate Sector Accounting and Auditing Practices, which is not surprising as the World Bank consultants were provided with the final draft of the Philippines DSAA report, before commencing their work.

The Philippines was less affected by the Asian financial crisis than some other countries in the region, largely due to better financial management arrangements. Moreover, accountancy is an elite and respected profession. However, the study revealed a range of issues that need attention if accountancy is to maintain its high status and if the Philippines is to successfully attract investment.

- In the case of **accounting and auditing standards and practices**, the study identifies deficiencies in the standards and in standard-setting arrangements. Several recommendations are made to enhance these arrangements so that the Philippines can have world-class accounting and auditing standards.
- The quality of **financial reporting** is undermined by a lack of compliance monitoring. To this end, the study recommends that financial disclosure monitoring be strengthened.
- Regarding **professional arrangements** the study identifies significant weaknesses in CPA licensure standards and quality assurance arrangements. The Philippines accountancy profession was once among the region's strongest. However, in the meantime, international standards and practices were continuously enhanced and neighboring countries developed their professions accordingly. The recommendations are intended to support the return of the Philippines accountancy profession to its former status.
- Standards of **accountancy education and training** might also be raised. To this end, recommendations are made to improve course quality and ensure that accountancy teachers keep up-to-date with international developments.

Some constraints can be addressed with minimal resources and effort. For instance, strengthening the profession by making PICPA membership compulsory for all CPAs. Others are more complex and will take

time, such as enhancing CPA licensure standards (examination, practical experience and continuing professional education).

The Philippines DSAA was undertaken before the other country studies in the 2001–02 DSAA series. The study recommendations were first discussed and debated with representatives from government, the private sector and international organizations at a workshop held at ADB's Manila Headquarters on 12–13 March 2001.

Some of the recommendations were the subject of intense debate. For instance, Philippine accountants could be licensed as CPAs—and could conduct audits—without ever having worked in accountancy. Some study participants disputed the need for a practical experience component in the CPA qualification. They contended that this requirement would be unworkable in the Philippine environment.

Moreover, some study participants disagreed with the study's general conclusion that Philippine financial disclosure and auditing practices were not consistent with international best practice:

“There have been instances of fraudulent reporting and audit failures in the US, United Kingdom, Singapore, Hong Kong and other supposedly best practice countries mentioned in the report. On the average, the Philippine accounting and auditing profession, at least those in the top tier, are comparable, if not better, than some of these countries.”²⁰⁸

Although these countries have had financial reporting and auditing failures—like those in the Philippines—there is a stark contrast in reactions. For instance, in response to recent US financial reporting scandals, stricter controls have been introduced; civil actions have been filed against the offending companies, their officers and their auditors; criminal charges have been laid against involved parties; and there has been intense scrutiny through the media and by the US Congress.

In contrast, following the Philippine scandals involving Engineering Equipment Incorporated (EEI) and Victorias Milling Company (Vicmico), neither PRC nor BOA investigated the auditors, the auditors were reportedly fined minimal amounts and these penalties were never reported in the media.

Whatever the case, the Philippines DSAA provided input into the development of the ADB-supported nonbank financial governance program.²⁰⁹ Some of the government-agreed policy conditions of that

²⁰⁸ Professional Regulation Commission (PRC). 11 March 2002. Comments on the ADB Study on Accounting and Auditing Issues in the Philippines. Letter.

²⁰⁹ ADB Loan 1858-PHI: *Nonbank Financial Governance Program*, for \$75 million, approved on 15 November 2001.

program reflect the study recommendations. Furthermore, ADB is providing technical assistance to strengthen the SEC's monitoring capacity in line with the study recommendations.

Significant efforts have already been made to implement the study recommendations. Each study recommendation—and the issues that it is intended to address—is set out below. The issues and recommendations are divided into two parts as follows.

- Part One: Where the matter referred to may be considered and, if any action is to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. Advocate Changes to IASB Copyright and Pricing Policies

IASB promulgates IAS and associated guidance materials. The IASCF holds the copyright to these materials. Many developing countries, including the Philippines, are moving towards IAS. Investors, lenders, academics, practitioners and regulators should have access to the IAS and associated materials. However, IASCF's copyrighting and pricing policies effectively limit this access. In doing so, they appear to conflict with the IASB's constitutional objectives. It is recommended that ADB raise this issue with other multilateral and bilateral donor organizations, so that a joint approach may be made to the IASB and the international accountancy profession.

2. Directly Adopt International Accounting Standards

The ASC has recently begun basing IAS-based SFASs. However, (i) SFASs are not being issued as quickly as IASs, (ii) old SFASs are not always modified to reflect the impacts of new SFASs, (iii) IASs are not necessarily fully adopted as a whole, and (iv) a range of accounting policy choices continues to be available to financial statement preparers.

The direct adoption of IASs offers benefits through (i) reducing the costs and efforts associated with standard setting; (ii) improving the credibility of Philippine financial reporting; (iii) providing access to a greater range of training materials; (iv) making Philippine CPA skills more transferable on the international market; and (v) enabling

Philippine financial reporting standards to be current with international pronouncements and practices. Where an IAS does not address a certain country-specific arrangement, there is a case for promulgating a national accounting standard. For instance, Papua New Guinea uses IASs directly but has released a national accounting standard on Plantation accounting.²¹⁰ A Philippine case might possibly be argued for *Dacion en Pago* arrangements.²¹¹

To accommodate diverse international views, IASs offer a range of accounting policy choices. While the available choices have been significantly reduced since 1996, IASs are still criticized for being too flexible. For instance, IAS 2 *Inventories* allows for several valuation methods. Many countries who have adopted, or who are adopting, IASs limit the available choices to improve the consistency and comparability of financial reporting in their country. In many cases, accounting choices are limited to those allowed for taxation purposes.

It is **recommended** that (i) the Philippines adopt IASs directly and completely on 1 January 2004, and that existing SFASs be invalidated at that date; (ii) assistance be provided to prepare training and guidance materials on the differences between IAS and existing Philippines GAAP; and (iii) training programs for practitioners, academics, and regulators in this respect be supported. It is further **recommended** that amendments to IAS be (i) allowed only to remove multiple accounting policy choices, and (ii) effected through overlay regulations rather than a direct amendment to an IAS.

3. Alter Accounting Standard Setting Arrangements

The ASC's accounting standard-setting processes align with international practice, but its structure is heavily weighted in favor of financial statement preparers and auditors. This imbalance is arguably reflected in the wide range of accounting policy choices that SFASs allow. In comparison, the US FASB and IASB reflect users' interests alongside those of preparers. Furthermore, the imprimatur of the PRC, through BOA, is required before accounting standards have legal authority. The BOA, like the ASC, is balanced strongly in favor of the accountancy profession.

²¹⁰ Narayan, Francis B. and Ted Godden. 2000. *Financial Management and Governance Issues in Papua New Guinea*: ADB. p. 42.

²¹¹ See, for instance, Diga, Joselito. 1997. *Accounting in the Philippines*. Published in Baydoun, Nabil, Akira Nishimura and Roger Willet (eds). *Accounting in the Asia-Pacific Region*. Wiley. pp. 202–203.

The FASB and the IASB are, like the ASC, private sector organizations. The issue of whether accounting standard setting should be a government or private-sector function is a common one faced by many countries—it is influenced by a range of factors.^{212, 213} Assigning this role to a government agency can be counterproductive. Research has found that government regulation stifles the profession and that accounting standard setting can become a taxation policy instrument, thereby significantly reducing the value of financial statements to other users.²¹⁴ In the Philippines, the members of the ASC, and in particular the Chair, have devoted enormous amounts of voluntary time over the past 18 years to develop accounting standards. If the preceding recommendation on direct acceptance of IASs is implemented, the balance of the Council's membership re-weighted, and approval responsibility assigned away from the BOA, there seems no reason why the accounting standard setting process should not continue to remain in the private sector.

It is **recommended** that the *Revised Accountancy Law 1975* be amended to reflect the following improvements to accounting standard setting arrangements: (i) accord legal status to the ASC; (ii) prescribe the Council's composition and appointment processes—the composition should reflect a balance of constituency views; and (iii) define the ASC's role as being limited to reviewing IASs and identifying policy choice exclusions in IASs.

4. Strengthen Financial Disclosure Monitoring

There is evidence that financial statements do not comply with financial disclosure requirements. It is **recommended** that assistance be provided to the Office of the General Accountant (OGA) of the SEC to develop and implement (i) a strict monitoring regime over financial disclosures; and (ii) an automatic system of penalties for corporations who breach financial disclosure requirements and for auditing firms that do not qualify audit opinions where financial disclosure requirements are sub-standard.

²¹² Zeff, Stephen. 1987. Setting Accounting Standards: Some Lessons from the US Experience. *Accountant's Magazine*. December. p. 27.

²¹³ Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank. pp. 25–26.

²¹⁴ Armstrong, Mikael and Katerina Hellström. April 1998. A Case Study of the Czech Republic. Stockholm School of Economics: Paper presented at 21st EAA Congress: Accounting in Times of Transition. Antwerp.

5. Directly Adopt IAASB Auditing Pronouncements

The ASPC promulgates SASPs, but is inactive. Consequently, SASPs have a narrow coverage and are behind IAASB pronouncements.

It is **recommended** that (i) the Philippines adopt ISAs, IAPs and all other IAASB pronouncements directly on 1 January 2004, and that existing SASPs be invalidated at that date; (ii) assistance be provided to prepare training and guidance materials on the differences between these pronouncements and SASPs; and (iii) training programs for practitioners, academics, and regulators in this respect be supported. It is further **recommended** that the *Revised Accountancy Law 1975* be amended to require that audits be conducted in accordance with the pronouncements of the IAASB.

6. Strengthen Compliance with Auditing Practices

It appears that Philippine auditing practices differ substantially from international and regional guidelines and norms in four areas: (i) auditor appointment and dismissal; (ii) auditor independence; (iii) audit reporting procedures; and (iv) exposure of auditors to liability. It is **recommended** that assistance be provided to develop and implement regulations covering the following areas: (i) auditor appointment and dismissal (e.g., appointments made by shareholders, automatic resignation at annual general meetings (AGM), and mandatory requirement for communications between incoming and outgoing auditors); (ii) auditor independence (e.g., restrictions on interests, restrictions on services, antilow-balling rules, mandatory rotation of audit firms or audit partners, mandatory disclosures of challenges to objectivity); (iii) audit reporting procedures (e.g., mandatory disclosure of fraud, illegal acts and internal control weaknesses in audit reports); and (iv) exposure of auditors to liability (e.g., remove legal liability caps). It is further **recommended** that assistance be provided to the Office of the General Auditor (OGA) of the SEC so that it can develop the capacity and procedures to ensure compliance with these requirements.

7. Amend the Accountancy Law so that Licensure Standards can be Raised

Qualifying as a CPA has four stages: academic, experience, examination and CPE. The Philippine CPA title meets international standards and regional norms on the first stage. It falls short on the others. There are three possible implications. First, the recently established IFAC Compliance Committee will be reviewing member body compliance with

IFAC guidelines and standards in the next few years. PICPA will have to explain deviations. The IFAC Compliance Committee is responsible for recommending actions to IFAC's Board and Council when member bodies fail to comply with guidelines and standards. Second, ISAR is embarking on a project to benchmark CPA qualifications from around the world. The "grade" given to a country CPA qualification will be based on compliance with international guidelines and practices. This grade will directly affect the international standing and transferability of CPA titles. Third, as a condition of membership, IFAC member bodies are required to comply with guidelines and standards. In this respect, IFAC has issued guidance on the procedures to be followed when agreeing on mutual recognition of qualifications. It appears that the Philippine WTO-GATS and Asia Pacific Economic Cooperation (APEC) negotiation strategy, in relation to accountancy services, is to conclude Mutual Recognition Agreements (MRAs). Under IFAC guidelines, member bodies must take education, examination and experience requirements into account when negotiating MRAs. As a significant exporter of accountancy services, the Philippines appears to be at a negotiating advantage. The legality of any MRAs that the Philippines concludes with other ASEAN countries might be open to challenge, from other APEC and WTO members, based on the quality of CPA licensure procedures.

The accountancy profession is attempting to raise standards—for instance, requiring mandatory CPE—but is hamstrung by the regulatory environment. A particular impediment is the uniform regulation approach applied through the PRC—which oversees 43 diverse professions. The story of CPE over the past decade has been one of endless legal proposals, reversals and court challenges. It is difficult to see how CPA licensure standards can be raised in the existing environment, without enabling legislative changes.

In order to create an environment that will enable CPA licensure standards to be raised, it is **recommended** that the *Revised Accountancy Law 1975* and other laws and regulations be amended to enable the introduction of (i) practical experience requirements for CPA licensure, (ii) a written component to the CPA licensure examination, and (iii) mandatory CPE as a condition of license renewal.

8. Address CPA Licensure Examination Issues

International guidelines recommend that a significant component of a CPA exam should be written, but the Philippine CPA licensure exami-

nation is entirely multiple choice. This approach was taken deliberately to minimize serious “leakage” problems in the examination process—it has been extremely effective in this sense. The tension between minimizing leakage and preparing high quality examinations is also reflected in the quality of examination questions. Examiners individually prepare one section each, but the other examiners do not review their efforts. The Microsoft certification approach provides a successful example of how technology can be employed to ensure that integrity is maintained while examinees are practically tested. This represents an updated approach to that used for the computerized CPA licensure examination. It is **recommended** that options for restructuring the CPA licensure examination be investigated with the objective of (i) introducing a written component into the examination; and (ii) implementing quality reviews over examination question setting.

9. Introduce an Experience Prerequisite for the CPA Title

The absence of a practical-experience prerequisite for CPA licensure does not accord with international standards or regional norms. Philippine accountants can be licensed as CPAs without ever having worked in accountancy. IFAC has published two documents to guide member bodies on how to meet the requirements of IEG 9.^{215, 216} The effective and fair implementation of these requirements in the Philippine environment poses some clear challenges; implementation and monitoring arrangements will need to be very carefully designed. It is **recommended** that specified practical experience be introduced as a prerequisite requirement for the CPA title.

10. Introduce Mandatory Continuing Professional Education

PICPA supports the introduction of mandatory CPE requirements—which international guidelines require. It is **recommended** that (i) mandatory CPE requirements be introduced through enabling legislative changes; and (ii) assistance be provided to design and implement appropriate procedures for monitoring CPE compliance.

²¹⁵ IFAC. Study I: An Advisory on Examination Administration Based on the Practices of Selected IFAC Member Bodies. New York: IFAC.

²¹⁶ IFAC. Discussion Paper on Work Experience. New York: IFAC.

11. Reassign Responsibilities for Monitoring and Investigating Certain Ethical Matters

BOA and PICPA are unwilling to investigate cases involving (i) gross negligence or incompetence, (ii) issuance of an accountant's certificate covering the examination of the client's accounts without observing the necessary auditing standards; or (iii) conduct discreditable to the accounting profession. This is perhaps because accounting firms have a strong representation in these bodies. In contrast, the SEC has shown willingness to investigate these types of ethical matters. Furthermore, the SEC is being restructured so that it can meet its responsibilities under the *Revised Securities Code 2000*. The restructure involves the creation of the OGA. This position was unfilled at February 2001.

It is **recommended** that responsibility for investigating cases involving; (i) gross negligence or incompetence, (ii) issuance of an accountant's certificate covering the examination of the client's accounts without observing the necessary auditing standards, or (iii) conduct discreditable to the accounting profession; be assigned to the Office of the General Accountant of the SEC. It is further **recommended** that assistance be provided to; (i) identify and draft the necessary legislative amendments to effect this reassignment; (ii) identify OGA requirements for implementing these responsibilities; and (iii) support the development of OGA capacity to meet these responsibilities.

12. Implement Quality Control and Assurance Arrangements

The accountancy profession places minimal emphasis on quality control assurance over professional practices—a recent limited initiative has been for the BOA to recognize accounting firms, based on their internal review processes. In contrast, IFAC recommends that member bodies, including PICPA, (i) adopt quality control standards and require individual accounting firms to implement these; (ii) develop and implement programs to review compliance with these standards; (iii) establish programs to review compliance with relevant professional standards for assurance engagements; and (iv) require accounting firms to make appropriate improvements in quality arrangements and procedures when these fail to meet standards. Neighboring countries have adopted robust programs of this nature.

It is **recommended** that assistance be provided for a project to improve professional supervision. The project would involve (i) studying the existing structures and processes of CPA firms; (ii) examining, and drawing useful lessons from international experience with regards to

supervisory regimes (including peer review regimes); (iii) designing a supervisory system for the Philippines that reflects local conditions and provides sufficient flexibility to deal with environmental changes; (iv) implementing the supervisory system and associated reporting systems; (v) reviewing and, where necessary, revising CPA legal responsibilities and associated disciplinary regulations; and (vi) improving the capacity of managers with supervisory responsibilities through training.

13. Introduce Provisional CPA Title

International practice is for CPA titles to be issued only after candidates have completely met academic, practical experience, and licensure examination requirements. In the period between meeting the academic requirements and receiving the full CPA license, accountants are accorded provisional status. They are not, however, allowed to sign audit reports or undertake certain other activities. It is **recommended** that PICPA and BOA establish a provisional CPA title for those who met academic requirements and are gaining prescribed practical experience.

14. Introduce Accounting Technician Membership Category

PICPA essentially has one individual membership category—that of the CPA. It has been estimated that the Philippines has a further 400,000 accountants. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria—particularly that of Accounting Technician. The establishment of at least one subsidiary membership category within PICPA would provide a transitional route for aspiring CPAs and professional representation for non-CPAs. It would also improve their societal status, and improve their knowledge and competence. Furthermore, this initiative would strengthen PICPA's membership and revenue base. It is **recommended** that PICPA and BOA consider establishing a professional membership category for accounting technicians.

15. Develop Annual Financial Management Scorecard

The establishment and systematic monitoring of financial management indicators would provide a impetus for raising standards. The BOA's initiative, of preparing examination result analyses and distributing these to under-performing academies, is an excellent example. It is **recommended** that assistance be provided to the OGA to (i) design a financial management scorecard; (ii) design and develop data-collection

methods to support the annual preparation of the scorecard; and (iii) prepare a scorecard for the 2001 calendar year.

16. Improve Monitoring of Accountancy Courses

There is a wide disparity in the quality of accountancy courses. Students from poorer families attend institutions with poor educational records in the hope that they will pass the CPA board examination. The BOA has initiated an excellent program to provide feedback to educational institutions on the quality of their courses. It is **recommended** that assistance be provided to the BOA to broaden its educational monitoring initiative.

17. Provide Continuing Training to Professors and Lecturers

There is a wide disparity in the quality of professors and lecturers. Anecdotal evidence contends that professors and lecturers, who teach accountancy courses to less-wealthy students, are not conversant with modern accounting and auditing practices. It is **recommended** that assistance be provided to design and implement a continuing education program for accounting lecturers and professors.

18. Define Accounting Information System Requirements

COA aims to increase the computerization of government accounting and auditing. Before further progress can be made, several policy issues must first be examined and a position agreed. Among others, these include (i) the accounting policy basis, (ii) consolidation policies and methodologies, (iii) the respective emphasis on financial and management accounting, (iv) the desirability of the Canadian practice of modified accrual accounting, and (v) the future of obligation and fund accounting. It is **recommended** that assistance be provided to COA to analyze these issues and develop agreed policies and plans to implement these policies.

Part Two. Where External Assistance is Not Required

19. Directly Adopt IFAC Pronouncements on Ethics

The BOA and PICPA *Code of Professional Ethics*, and procedures for dealing with potential ethical breaches, do not accord with international guidelines. Two examples follow. First, the Board and the Institute should have the authority to investigate potential ethical breaches, even when no complaint has been made. Second, the Board and the Institute should

publicize potential breaches and investigative actions as a matter of course, rather than as a matter of exception. It is **recommended** that the *Revised Accountancy Law 1975* be amended so that (i) the IFAC *Code of Professional Ethics* and other IFAC promulgations on ethical matters be accorded legal status; (ii) existing pronouncements and procedures on ethics be revoked; and (iii) the procedures of BOA and PICPA be amended to accord with IFAC promulgations.

20. Make PICPA Membership Compulsory for CPAs

Despite efforts to make it so, membership of the Accredited Professional Body—PICPA—is not compulsory—only about 20 % of CPAs are members. This limits quality control and educational efforts. It also undermines the financial position of the professional accountancy bodies. It is **recommended** that the Accountancy Law be amended to require membership of PICPA, a requirement for retaining the CPA title.

21. Minimize Compliance (Transaction) and VFM Auditing

Auditors spend the majority of their time on compliance auditing (checking transactions). Minimal time is spent on financial attest auditing as more effort is applied to value-for-money (VFM) audits. A proposed ADB TA will focus on strengthening financial attest auditing and VFM capacities. While this study strongly supports resources being redirected from compliance auditing to financial attest auditing, it cautions against similar redirection to VFM auditing, for three reasons. First, VFM audits are essentially policy evaluations but generally take place long after policies have been implemented. Strengthening the policy-making function, through policy evaluations, is more effective in this sense. Second, in contrast to a well-designed policy evaluation function, VFM audits are generally targeted on the basis of questionable criteria. A review of VFM reports from Supreme Audit Institutions (SAIs) around the world would reveal, in keeping with public choice theory, that issues are targeted for their media worthiness—not necessarily for their impact on significant public policy outcomes. Third, the skills required to conduct a policy evaluation or a VFM audit are generally not those of a CPA. This requires that organization capacity be established. Fourth, even if VFM audits do represent value for money, they inevitably divert resources away from financial attest auditing—a key tool in reducing graft and corruption. For instance, COA already devotes more resources to VFM auditing than it does to financial attest auditing. The SAIs of developed countries, which have a strong financial attest

auditing capacity, can afford to divert resources to VFM auditing. It is questionable whether the same is true of developing countries.

It is **recommended** that COA (i) continue to reduce the resources that are directed towards compliance (transaction) audits; (ii) continue to strengthen financial attest auditing capacity; and (iii) consider the appropriateness of directing scarce resources towards VFM auditing in the absence of a strong financial attest auditing capability.

22. Limit Proxy Voting in PICPA Meetings and Elections

Proxy voting is employed in PICPA elections. It has been contended that large accounting firms collect proxies and cast block votes. It is **recommended** that PICPA's Bylaws be amended to limit the number of proxy votes that individual members can exercise at meetings or during elections.

23. Exempt CPAs from Tax Agent Accreditation

In 1999, under the *National Internal Revenue Code*, the BIR required that tax agents be accredited. This requirement took legal effect from 1 January 2001, but has yet to be implemented in practice. It has been suggested that accreditation will encourage rent-seeking behavior. Moreover, as attorneys are exempt from accreditation, it has also been contended that this exemption should also apply to CPAs. It is **recommended** that the BIR treat CPAs in the same manner as attorneys for the purpose of tax agent accreditation.

24. Limit Accountancy Degree Courses to 4 Years

PICPA proposes that a 5-year accountancy curriculum be introduced. In contrast, the BOA recommends that a 4-year curriculum be continued and that focus be directed towards improving curriculum quality and teaching quality. This study supports the BOA's stand for two reasons. First, IFAC recommends a minimum 3-year curriculum—a longer education program will not necessarily address quality issues. Second, a 5-year curriculum will limit opportunities for less wealthy students. It is **recommended** that a 4-year course limit be placed upon accountancy degree courses.

25. Separate Accounting and Auditing Responsibilities

The Commission on Audit is exclusively responsible for promulgating accounting and auditing rules—per Article IX of the *Constitution 1987*. Their coexistence is inconsistent with the concept of auditor objectivity

and independence. Moves are already underway to address this issue—for instance, Senate Bill No 439 (2000) seeks to create a government accounting office under the DBM—this could be constitutionally troublesome unless carefully designed. However, a proposed ADB TA will examine COA’s structure and responsibilities with the intention of recommending a solution that is in keeping with the Constitution. This study supports efforts to separate government accounting and auditing responsibilities. But, it is **recommended** that initiatives to separate government accounting and auditing functions, be planned in full acknowledgement of Constitutional requirements.

26. Adopt International Public Sector Accounting Standards

There is no consistent set of accounting standards for budgeting and reporting. Major reporting differences result. COA is considering what accounting standards might be appropriate as it prepares for the introduction of accrual accounting. There are three sets of international standards available: (i) IMF Government Financial Statistics (GFS); (ii) UN System of National Accounts (SNA); and (iii) IPSAS. ADB, World Bank, IMF and UNDP have funded the development of IPSASs and are represented on the PSC. The International Organization of Supreme Audit Institutions (INTOSAI) is also represented on the PSC.

Most countries use the cash-based GFS and SNA standards. Furthermore—given that IPSASs are entirely grounded in IASs—a number of governments indirectly use them for preparing financial statements on the accrual accounting basis. While differences remain between GFS, SNA and IPSASs, significant progress has been made towards harmonization. As demonstrated by several governments, the IPSAS basis provides the necessary information to prepare GFS and SNA financial statements. Three advantages would accrue through the adoption of the IPSASs. First, government and private sector accounting practices would be the same. This would enable direct transferability of accounting skills between the two sectors. Second, training and guidance materials are available from governments that have already moved to an IPSAS-compatible accrual basis (e.g., Australia and New Zealand, among others). Third, as IPSASs are essentially IASs under another name, choices in computerized accounting systems are not limited to those with special functionality.

It is **recommended** that IPSASs be adopted if the Government moves to full accrual accounting.