

I. Introduction

The 1997-98 Asian financial crisis exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, a lack of transparency, and weak supervision and regulation.⁵

ADB has been taking initiatives to assist its DMCs to overcome these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

In 2000, under ADB Regional Technical Assistance (RETA) 5877⁶, DSAs were prepared and published for Cambodia, Mongolia, Pakistan, Papua New Guinea, People's Republic of China, Uzbekistan and Viet Nam. ADB approved RETA 5980—*Diagnostic Study of Accounting and Auditing Practices in Selected Developing Member Countries*⁷—for the purpose of carrying out initial studies to identify gaps and weaknesses in accounting and auditing arrangements and to recommend courses of action to overcome these problems. It extends the work conducted under RETA 5877 and involved the preparation of DSAs for Azerbaijan, Fiji Islands, Republic of the Marshall Islands (RMI) and Sri Lanka.⁸ Objectives were to: (i) assess the capability and capacity within each country to provide efficient and effective accounting and auditing support to meet international standards and best practices and address the issue of training and capacity enhancement; (ii) determine the existing accounting and auditing standards of each selected country; (iii) assess the degree of deviation from international accounting and auditing standards while identifying weaknesses and possible corrective options; (iv) discuss the fieldwork findings and introduce the concepts of the international standards through

⁵ Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand*. Manila: ADB.

⁶ *Strengthening Financial Management and Governance in Selected DMCs*.

⁷ For \$230,000 approved on 20 March 2001.

⁸ The Philippine DSAA was prepared under RETA 5765 *Banking, Capital Market and International Competitiveness Reforms in Response to the Currency Turmoil*.

workshops; and (v) determine the level and type of assistance needed by each country in order to provide acceptable accounting and auditing support to the private and public sectors.

Each DSAA involved an indepth study of the key issues relating to accounting and auditing support in the selected DMC. Where appropriate, efforts were made to ensure that DSAA exercises were coordinated with World Bank activities to minimize overlap (i.e., for Azerbaijan, the Philippines and Sri Lanka).

The first part of each country study examined accounting and auditing structures and systems. It also: (i) analyzed the political, institutional, and regulatory and legal framework on accounting and auditing practice, and the level of enforcement of existing laws, rules and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available, and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

The second part of each study disseminated the country-research findings through in-country workshops. Each workshop provided a cross-section of views on the research findings and established ways to move forward to improve accounting and auditing arrangements. The overall study results and recommendations were further discussed and debated at an international workshop at ADB headquarters in Manila on 5-6 March 2002.

This report examines selected accounting and auditing issues and summarizes the results of the five country studies. It was finalized following the March 2002 Manila workshop. In addition to this introduction, the report has the following chapters:

- **Chapter II** examines the importance of sound accounting and auditing practices.
- **Chapter III** provides contextual background information on the five countries that participated in the study.
- **Chapter IV** identifies and examines selected accounting and auditing issues.
- **Chapters V-IX** describe the situation in each country, identify weaknesses and present corrective recommendations to address these weaknesses.
- **Chapter X** presents the country action plans and examines region-wide issues.