

# **Diagnostic Study of Accounting and Auditing Practices in Selected Developing Member Countries**

Azerbaijan  
Fiji Islands, Republic of the  
Marshall Islands  
Philippines  
Sri Lanka

Prepared Under Regional Technical Assistance (RETA)  
5980: *Diagnostic Study of Accounting and Auditing Practices  
in Selected Developing Member Countries*

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## Foreword

**A** rapidly growing body of compelling economic research reveals that governance arrangements strongly influence development outcomes including social indicators such as infant mortality and adult literacy rates. Sound accounting and auditing practices are an integral part of good governance arrangements.

Moreover, the 1997-98 East Asian financial crisis taught us a lot about the way structural weaknesses of institutions, bad regulatory policies and poor supervision of financial institutions can have huge costs, even where macroeconomic management is fundamentally sound. It taught us that good governance in both the public and private sectors is very important. Good corporate governance requires the enforcement of bankruptcy and corporate laws, the use of internationally acceptable accounting and auditing standards, and the existence of independent auditors and regulators.

These lessons are relevant for all countries; not just those from East Asia. Even the United States—which has a strong financial market framework—is currently struggling with a string of financial governance failures. The Asian Development Bank (ADB) heeded these lessons and identified two key reform priorities: strengthening banking supervision and regulation, and improving financial reporting standards and their enforcement.


If ADB is to provide effective assistance to address these priority areas, we must first understand each country's existing accounting and auditing arrangements and the particular challenges they face. To get this understanding, Diagnostic Studies of Accounting and Auditing (DSAAs) were undertaken for seven developing member countries (DMCs) in 2000; Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan and Viet Nam. These studies were conducted in consultation with governments, other donor agencies and the accounting and auditing professions. Each country study identified issues and developed actions to remedy revealed weaknesses.

The first seven diagnostic studies were particularly successful. Indeed the People's Republic of China study had to be reprinted within weeks of its release to meet high demand. The studies did not end with report publication. In most cases, the participating governments are acting to implement the recommendations. In some cases, ADB is providing relevant assistance to the participating governments.

Given this success, ADB management agreed to extend the diagnostic work undertaken in 2000 to five additional DMCs: Azerbaijan, Fiji Islands,

Marshall Islands, Philippines and Sri Lanka.<sup>1</sup> This report summarizes the results of the individual country studies. Each country has a different background and faces its own challenges. Four are island nations and one is landlocked. Two countries have British accounting backgrounds, one has a Soviet accounting history and two have been influenced by American arrangements. Whatever their differences, all five are committed to improving their accounting and auditing practices.

Sound accounting and auditing arrangements are not just important for avoiding crises. Good arrangements reduce opportunities for growth-sapping corruption. They also enable countries to attract investment and to develop at a faster pace. The studies, which this report summarizes, were conducted between January 2001 and March 2002 in consultation with other donor agencies, government organizations, and accounting and auditing professions. The studies identified gaps and weaknesses in the current accounting and auditing infrastructure of the five countries and came up with recommendations and action plans to remedy the identified weaknesses. ADB intends to develop such profiles for other DMCs in the future.



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<sup>1</sup> The DSAs for Azerbaijan, Fiji Islands, Marshall Islands and Sri Lanka were prepared under ADB Regional Technical Assistance (RETA) 5980: *Diagnostic Study of Accounting and Auditing Practices in Selected Developing Member Countries*. The Philippines DSAA was prepared under ADB RETA 5765: *Banking, Capital Market and International Competitiveness Reforms in Response to the Currency Turmoil*.

## Preface

This report was prepared under Regional Technical Assistance (RETA) 5980: *Diagnostic Study of Accounting and Auditing Practices in Selected Developing Member Countries* for ADB by Francis B. Narayan, Lead Financial Management Specialist, ADB; Sarath Lakshman Athukorala, Financial Management Specialist, ADB; and Barry C. Reid, Consultant, ADB. Maria Rosa (Bing) P. Ortega, ADB coordinated logistical arrangements.

This report summarizes the results of DSAAAs in five ADB DMCs: Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka.<sup>2</sup> Individual reports are also available for each of the five countries. These studies extend work conducted in 2000, when DSAAAs were prepared and published for seven ADB DMCs: Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan and Viet Nam.<sup>3</sup>

The World Bank has a similar initiative in their Country Financial Accountability Assessment (CFAA) program. These exercises are generally coordinated to avoid overlap. For instance, the World Bank used the Sri Lankan DSAA as the basis for their public sector-focused CFAA.

The individual country studies were undertaken between January 2001 and February 2002. The issues and recommendations identified in each country report were discussed and debated with representatives from government, the private sector and international organizations at workshops in each of the participating countries. The reports were also reviewed by government officials, private sector representatives, ADB officials, and officials from other bilateral and multilateral donor organizations. The study results and recommendations were further discussed and debated at an international workshop at ADB headquarters in Manila on 5-6 March 2002. In the coming months, ADB will work with each respective government and other donor agencies to identify funding sources to support the implementation of the study recommendations, where appropriate.

The authors would like to offer their appreciation to the numerous officials, researchers and agencies that gave up their valuable time and made

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<sup>2</sup> The DSAAAs for Azerbaijan, Fiji Islands, Marshall Islands and Sri Lanka were prepared under ADB Regional Technical Assistance (RETA) 5980: *Diagnostic Study of Accounting and Auditing Practices in Selected DMCs*. The Philippine DSAA was prepared under ADB RETA 5765: *Banking, Capital Market and International Competitiveness Reforms in Response to the Currency Turmoil*.

<sup>3</sup> Under ADB RETA 5877: *Strengthening Financial Management and Governance in Selected DMCs*.

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## ADB Diagnostic Studies on Accounting and Auditing

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**T**he Asian Development Bank (ADB) publishes this series to: (i) provide reference materials on accounting and auditing for government officials, ADB officials, officials from other donor agencies, and other interested parties; (ii) identify potential actions that the participating government and/or the accounting profession can take to rectify weaknesses, in partnership with donor agencies where appropriate, and (iii) provide the participating country with a benchmark against which to measure their progress in improving financial management and governance arrangements.

Orders can be placed with the Publications Information Center, Office of External Relations, ADB, P.O. Box 789, 0980 Manila Philippines. The reports may also be downloaded from [www.adb.org](http://www.adb.org).

### Summary Reports

Accounting and Auditing Practices in Selected Developing Member Countries (DMCs): A Diagnostic Study of Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka. 2002.

Financial Management and Governance Issues in Selected Developing Member Countries (DMCs): A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam. 2000.

### Individual Reports: By ADB Region

All ADB DMCs are listed by region. Economies for which a DSAA has been prepared are bolded and the year of publication is shown in brackets:

East and Central Asia: **Azerbaijan** (2002); **People's Republic of China** (2000); Hong Kong, China; Kazakhstan; Kyrgyz Republic; Republic of Korea; **Mongolia** (2000), Tajikistan; Taipei, China; Turkmenistan; and **Uzbekistan** (2000).

Mekong: **Cambodia** (2000), Lao People's Democratic Republic, Myanmar; Thailand, **Viet Nam** (2000).

Pacific: Cook Islands, Democratic Republic of East Timor, **Fiji Islands** (2002), Kiribati, Republic of the **Marshall Islands** (2002), Federated States of Micronesia, Nauru, **Papua New Guinea** (2000), Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

South Asia: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, **Pakistan** (2000), **Sri Lanka** (2002).

Southeast Asia: Indonesia, Malaysia, **Philippines** (2002), Singapore.

## ABBREVIATIONS

AAC	Azerbaijan Accounting Chamber
AASC	Accounting and Auditing Standards Committee (Fiji Islands)
AATSL	Association of Accounting Technicians of Sri Lanka
ACAAz	Association of Certified Accountants of Azerbaijan
ADB	Asian Development Bank
AICPA	American Institute of Certified Public Accountants
ANB	Azerbaijan National Bank
APEC	Asia Pacific Economic Cooperation
ASC	Accounting Standards Council
ASEAN	Association of Southeast Asian Nations
ASPC	Auditing Standards and Practices Council
AusAID	Australian Agency for International Development
AuSC	Auditing Standards Committee
BIR	Bureau of Internal Revenue (Philippines)
BOA	Board of Accountancy (Philippines)
CAPA	Confederation of Asian and Pacific Accountants
CFA	Compact of Free Association (RMI)
CFAA	Country Financial Accountability Assessment (World Bank)
CHED	Commission on Higher Education (Philippines)
CICPA	Chinese Institute of Certified Public Accountants
CIDA	Canadian International Development Agency
CMASL	Society of Certified Management Accountants of Sri Lanka
CMI	College of the Marshall Islands
COA	Commission on Audit (Philippines)
COAA	Chamber of Auditors of Azerbaijan
CPA	Certified Public / Practicing Accountant
CPE	Continuing Professional Education
DMC	Developing Member Country (ADB)
DSAA	Diagnostic Study of Accounting and Auditing (ADB)
EBRD	European Bank for Reconstruction and Development
ED	Exposure Draft
EFTS	Equivalent Full-Time Student
EU	European Union
EU-TACIS	European Union—Technical Assistance to the Common- wealth of Independent States
FAS	Fiji Accounting Standard

FASB	Financial Accounting Standards Board (US)
FATF	Financial Action Task Force on Money Laundering
FDB	Fiji Development Bank
FDI	Foreign Direct Investment
FFMRP	Fiscal and Financial Management Reform Program (RMI)
FIA	Fiji Institute of Accountants
FIT	Fiji Institute of Technology
FMR	Financial Management Reform
FNTC	Fiji National Training Council
FSU	Former Soviet Union
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GASB	Government Accounting Standards Board (US)
GATS	General Agreement on Trade in Services (WTO)
GDP	Gross Domestic Product
GFS	Government Finance Statistics (IMF)
GNP	Gross National Product
IAASB	International Auditing and Assurance Standards Board (IFAC)
IAPC	International Auditing Practices Committee (IFAC)
IAPS	International Auditing Practice Statement (IAASB)
IAS	International Accounting Standard (IASB)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	IASC Foundation
ICASL	Institute of Chartered Accountants of Sri Lanka
IEG	International Education Guideline (IFAC)
IES	International Education Standard (IFAC)
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard (IASB) <sup>4</sup>
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPFDA	Institute of Public Finance and Development Accountancy (Sri Lanka)

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<sup>4</sup> In 2001, the International Accounting Standards Board (IASB) assumed responsibility from the International Accounting Standards Committee (IASC) for promulgating IASs. In future, IASB-issued standards will be called International Financial Reporting Standards (IFRSs). While the IASB now expects its standards to be called IFRSs, this report uses the term IASs (in the interests of continuity).

IPSAS	International Public Sector Accounting Standard (IFAC)
IRFAA Eurasia	International Regional Federation of Accountants and Auditors Eurasia
ISA	International Standard on Auditing (IAASB)
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (UNCTAD)
LIFO	Last-in First-out (inventory valuation method)
MIITF	Marshall Islands Intergenerational Trust Fund
MOF	Ministry of Finance
MOFANP	Ministry of Finance and Planning (Fiji Islands)
MTEF	Medium-Term Expenditure Framework
NZAID	New Zealand Agency for International Development
OAG	Office of the Auditor General
OECD	Organisation for Economic Cooperation and Development
OGA	Office of the General Accountant (Philippines)
PFMA	Public Finance Management Act (Fiji Islands)
PFTAC	Pacific Financial Technical Assistance Center
PICPA	Philippine Institute of Certified Public Accountants
PRC	Professional Regulation Commission (Philippines)
PSC	Public Sector Committee (IFAC)
RETA	Regional Technical Assistance (ADB)
RMI	Republic of the Marshall Islands
ROSC	Report on the Observance of Standards and Codes (IMF/World Bank)
SAI	Supreme Audit Institution
SASP	Statements of Auditing Standards of the Philippines
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SLAASMB	Sri Lanka Accounting and Auditing Standards Monitoring Board
SLAS	Sri Lankan Accounting Standard
SME	Small or Medium-sized Enterprise
SME-CG	Consultative Group of Experts on SME Accounting (ISAR)
SNA	System of National Accounts (UN)
TA	Technical Assistance
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States

USAID	United States Agency for International Development
USP	University of the South Pacific
VFM	Value for Money
WTO	World Trade Organization

### **Note**

In this report, \$ refers to US dollars.

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