

Financial Management and Governance Issues in Selected Developing Member Countries

A Study of Cambodia, China (People's
Republic of), Mongolia, Pakistan,
Papua New Guinea, Uzbekistan and
Viet Nam

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Preface

In 1999, the Asian Development Bank (ADB) declared poverty reduction to be our overarching goal. Despite Asia's growth and the significant fall in the incidence of poverty over the last four decades, one in every three Asians is still wretchedly poor. Some 900 million people live in absolute poverty. The Asian financial crisis in 1997-1998 aggravated the situation – millions who were successful in coming out of poverty following almost three decades of sustained economic growth, were pushed back into poverty over a short period of two years.

The financial crisis has 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 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.

ADB has heeded these lessons. We have provided lending and technical assistance programs aimed at financial sector development, public sector and public expenditure reform, private sector development, and governance reform over a number of years. To better coordinate our financial management and financial governance activities the ADB has created a new position – Lead Financial Specialist, within our Economics and Development Resource Center. The Lead Financial Specialist, with the support of an expert team, is now the focal point for ADB's financial management activities.

ADB is committed to helping governments and other institutions within its developing member countries to improve financial management and governance. To be able to effectively provide this assistance, ADB needs to understand the accounting and auditing arrangements that currently exist in each country. To get this understanding, Regional Technical Assistance – *Strengthening Financial Management and Governance in Selected Developing Member Countries* – was approved by the Management to carry out diagnostic work in seven developing member countries: Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam. These seven countries represented a cross-section of developing member countries.

The study, which this report summarizes, was conducted between April and November 2000 in consultation with other donor agencies, governments, accounting and auditing professions. The study identified gaps and weaknesses in the current accounting and auditing infrastructure of the seven countries and came up with

recommendations and an action plan to remedy the identified weaknesses. To assess the requirements for all ADB developing member countries will take time. This regional study was the first step towards this end. We hope to develop such profiles for other countries as well in the coming years.

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Foreword

This report describes the results of a study of financial management and governance arrangements in seven developing member countries of the ADB: Cambodia, Mongolia, Pakistan, Papua New Guinea, People's Republic of China, Uzbekistan, and Viet Nam. It was prepared under ADB Regional Technical Assistance (RETA) 5877: *Strengthening Financial Management and Governance in Selected Developing Member Countries*. Individual reports are also available for each of the seven participating countries.

For the purposes of this study, financial management and governance arrangements are narrowly defined as being accounting and auditing arrangements and practices. The authors acknowledge that the study either excludes or only lightly covers many important issues such as corporate governance arrangements, state-owned enterprise accountability, and financial sector arrangements. This was due to time and resource constraints combined with a desire to maintain a tight focus on key accounting and auditing arrangements. We recognise that these issues are also critical and encourage countries and organizations to examine these arrangements by building on this study.

The purpose of this report, the individual country reports, and the study in general, is to:

- provide reference materials for government officials, ADB officials, officials from other donor agencies, and other interested parties on financial management and governance
- identify potential actions that the participating governments can take, in partnership with donor agencies where appropriate, to rectify weaknesses, and
- provide participating countries with a benchmark against which to measure their progress in improving financial management and governance arrangements.

The individual country studies were undertaken between May and September 2000 by ADB consultants Ted Godden and Barry Reid, with support from local research assistants and under the overall guidance of Francis B. Narayan, Lead Financial Specialist, ADB. Maria Rosa (Bing) Ortega provided technical input and coordinated logistical arrangements. The issues and recommendations identified in each of the country reports were discussed and debated with representatives from the 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 conference at ADB headquarters in Manila on 16-18 October 2000. 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 materials available during the course of the research. We would particularly like to thank: Daniel Chian (Executive Council Member of the Confederation of Asian and Pacific Accountants) for helpful suggestions on this report; and Yvonne Osonia and Maria Carolina Faustino-Chan for their support throughout the study.

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Abbreviations

ADB	Asian Development Bank
CAPA	Confederation of Asian and Pacific Accountants
CFAA	Country Financial Accountability Assessment (World Bank)
CPA	Certified Public Accountant
DMC	Developing Member Country
EBRD	European Bank for Reconstruction and Development
ED	Exposure Draft
EU	European Union
FASB	Financial Accounting Standards Board (United States)
FSU	Former Soviet Union
GDP	Gross Domestic Product
IAPC	International Auditing Practices Committee (IFAC)
IAPS	International Auditing Practice Statement (IAPC)
IAS	International Accounting Standard (IASB)
IASC	International Accounting Standards Committee
IEG	International Education Guideline (IFAC)
IES	International Education Standard (IFAC)
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standard
ISA	International Standard on Auditing (IAPC)
OECD	Organization for Economic Cooperation and Development
PNG	Papua New Guinea
PRC	People's Republic of China
PSC	Public Sector Committee (IFAC)
RETA	Regional Technical Assistance
ROSC	Report on the Observance of Standards and Codes (IMF)
SAI	Supreme Audit Institution
SOE	State-owned Enterprise
TA	Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Note

Note: In this report, \$ refers to US dollars.

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