



Technical Assistance Report

Project Number: 39250
August 2006

Public Sector Accounting Standards (Third Phase)

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
ED	–	exposure draft
GGS	–	general government sector
IAS	–	International Accounting Standards
IASB	–	International Accounting Standards Board
IFAC	–	International Federation of Accountants
IFRS	–	International Financial Reporting Standards
INTOSAI	–	International Organization of Supreme Audit Institutions
IPSAS	–	International Public Sector Accounting Standards
IPSASB	–	International Public Sector Accounting Standards Board
RETA	–	regional technical assistance
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsector	–	Public finance and expenditure management
Themes	–	Governance, capacity development
Subthemes	–	Financial and economic governance, institutional development

NOTE

In this report, "\$" refers to US dollars.

Vice President	K. Pholsena, Finance and Administration Group
Controller	P. Y. Chiu, Controller's Department (CTL)
Assistant Controller	H. Fukukawa, Officer-In-Charge, Loan Administration Division, CTL
Team leader	H. Huang, Financial Control Specialist, CTL

I. INTRODUCTION

1. In September 2005, the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC)¹ requested the Asian Development Bank (ADB) for technical assistance (TA) to continue to support its program for further development and production of a series of accounting guidelines and standards to enhance financial reporting, accounting, and auditing in the public sector.² The accounting guidelines and standards would be applicable to most governments of ADB's developing member countries (DMCs). To help IPSASB undertake the program, ADB provided regional technical assistance (RETA) to IPSASB in October 2002 (Second Phase),³ following successful completion of the first phase of the RETA provided in 1997.⁴ The World Bank and other international organizations cofinanced both RETAs.

2. The following were achieved under the first and second phases of the RETAs:
- (i) The comprehensive cash basis International Public Sector Accounting Standards (IPSAS) was issued.
 - (ii) 21 accrual basis IPSAS were released: IPSAS 1 (Presentation of Financial Statements), IPSAS 2 (Cash Flow Statements), IPSAS 3 (Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies), IPSAS 4 (The Effects of Changes in Foreign Exchange Rates), IPSAS 5 (Borrowing Costs), IPSAS 6 (Consolidated Financial Statements and Accounting for Controlled Entities), IPSAS 7 (Accounting for Investments in Associates), IPSAS 8 (Financial Reporting of Interest in Joint Ventures), IPSAS 9 (Revenue from Exchange Transactions), IPSAS 10 (Financial Reporting in Hyperinflationary Economies), IPSAS 11 (Construction Contracts), IPSAS 12 (Inventories), IPSAS 13 (Leases), IPSAS 14 (Events After the Reporting Date), IPSAS 15 (Financial Instruments: Disclosure and Presentation), IPSAS 16 (Investment Property), IPSAS 17 (Property, Plant and Equipment), IPSAS 18 (Segment Reporting), IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets), IPSAS 20 (Related Party Disclosures), and IPSAS 21 (Impairment of Non-Cash-Generating Assets).
 - (iii) Study 14 "Transition to the Accrual Basis of Accounting" was revised and published.
 - (iv) The Handbook of International Public Sector Pronouncement 2005 was translated into French and Spanish.
 - (v) The development of IPSAS on key public sector projects was well advanced.

3. The IPSAS provided the foundation for achieving the long-term objectives of (i) moving to full-fledged accrual accounting in the future for both developed and developing countries; and (ii) improving the quality and reliability of accounting and financial reporting for the public sector. Following successful completion of the second phase RETA, IPSASB requested ADB to provide a third phase to finance the ongoing accounting standard development program for 2006–2008. The TA framework is in Appendix 1.⁵

¹ IFAC 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 on IFAC's behalf. Effective 10 November 2004, IPSASB replaced the Public Sector Committee.

² "Public sector" refers to (i) national governments; (ii) regional (state and provincial) governments; (iii) local (city and town) governments; and (iv) related government entities (agencies, boards, commissions, and enterprises).

³ ADB. 2002. *Technical Assistance for Government Accounting Standards (Second Phase)*. Manila (for \$245,000).

⁴ ADB. 1997. *Technical Assistance for Government Accounting Standards*. Manila (for \$245,000).

⁵ This TA first appeared in *ADB Business Opportunities* on 23 June 2006.

II. ISSUES

4. As of December 2005, the following projects were in progress:
- (i) Five exposure drafts (EDs): (a) ED 24, "Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance"; (b) ED 25, "Equal Authority of Paragraphs in IPSAS"; (c) ED 26, "Improvements to International Public Sector Accounting Standards"; (d) ED 27, "Presentation of Budget Information in Financial Statements"; and (e) ED 28, "Disclosure of Financial Information about the General Government Sector".
 - (ii) Revenue from Non-Exchange Transactions.
 - (iii) Accounting for Social Policy Obligations of Governments.
 - (iv) Heritage Assets.
 - (v) Impairment of Cash Generating Assets.

These projects will be developed during the third phase of the IPSAS development program. During consultation with representatives of IPSASB member countries, DMC governments, accounting bodies, the accounting profession, and multilateral financial institutions, IPSASB recognized the complexity of establishing accounting standards for the public sector and enhanced the work program for the next phase to address concerns and issues raised.

5. IPSASB's ongoing work program will have significant impact on DMCs' financial and accounting reporting requirements and auditing procedures, as IPSASB was established to provide accounting standards for accountancy bodies and the profession in the public sector worldwide.

6. Development of accrual IPSAS on uniquely public sector issues required significant investment of IPSASB resources. The process required extensive consultation to ensure that IPSASB's constituents understand the conceptual basis for a proposed financial reporting treatment and accept IPSASB's final decision. It was important not to underestimate the amount of time and consultation required. In addition, IPSASB was not in a position to keep up-to-date with International Accounting Standards Board (IASB)⁶ developments given its current resource levels. IASB had a full-time, salaried board, and a much larger staff than IPSASB; and had an operating budget of \$17.00 million for 2005 compared with IPSASB's \$1.05 million. IASB reissued most of the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) on which 19 of the 21 IPSAS were based. The differences in the IPSAS and IFRS presented difficulties for some governments in implementing accrual financial reporting.

7. Nonetheless, IPSASB realized that it was timely to undertake a broad review of its work program and longer-term strategy, and the resource requirements. IPSASB members agreed that such a review should include additional resources to be provided to IPSASB in support of collaborative projects with national standards setters and similar bodies or other parties.

8. While IPSASB has developed and produced a series of accounting guidelines, standards, and studies under the second phase of the TA, many important tasks remain to be completed. The second phase program of IPSASB could not fully cover all the public sector

⁶ IASB was formed in 1973 and has been based in London with the original name of International Accounting Standard Committee. IASB's mission is to develop worldwide accounting standards for the business sector. IASB is an independent body with close links to national standard-setting bodies in countries worldwide. Fourteen board members come from many countries and represent a variety of professional backgrounds.

accounting issues and concerns. Due to uncertain funding resources, one technical manager left IPSASB for IASB, and the technical director who had worked for IPSASB for more than 10 years has resigned. This has significantly affected timely progress of the work program.

9. Improvement of accounting and financial reporting in the public sector is a long-term process. The funding shortage has significantly affected IPSASB's work program. IPSASB has requested that ADB continue to provide financial support to its ongoing IPSAS development program.

10. Throughout the implementation of the proposed third phase TA, ADB will continue to closely monitor and assist in the progress of IPSASB's activities in drawing up EDs and IPSAS, particularly to (i) implement accrual basis accounting, (ii) standardize cash basis accounting, and (iii) enhance DMCs' institutional capacities in preparing their financial statements. ADB, as an observer to IPSASB, will continue to attend IPSASB's conferences and meetings, in addition to guidance on the direction of IPSASB's work program.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The TA is envisioned to (i) facilitate, in the long run, accounting policy reform, accountability and capacity strengthening of DMCs; and (ii) improve the government (public sector) accounting system. Improvement in the public sector accounting system would be instrumental for DMCs to achieve good governance. Therefore, the third phase of IPSASB's work program is in line with ADB's development agenda on good governance, anticorruption, and an enhanced government fiscal management system.

12. The impact of the TA will be to support IPSASB in further developing and issuing a series of accounting guidelines and standards for the government (public sector), which would be used by DMCs.

13. The outcome of the TA consists of three main components: (i) further development of accrual basis IPSAS related to public sector specific topics, (ii) development of IPSAS related to IFRS and general government sector (GGs) convergence program, and (iii) review of the implementation of the cash basis IPSAS. The IPSASB work program is in Appendix 2.

B. Methodology and Key Activities

14. The key activities of the third phase work program for 2006–2008 are to (i) complete development of public sector specific IPSAS; (ii) finalize IPSAS for the six EDs under review, i.e., EDs 24 to 28 (para 4) and ED 29, "Revenue from Non-Exchange Transactions (including taxes and transfers)"; (iii) draft IPSAS on a number of key public sector issues dealing with such matters as converging IPSAS with IFRS and converging IPSAS with the statistical base of financial reporting of GGS; (iv) implement activities to promote IPSAS; and (v) translate IPSAS into two key languages other than English, such as French and Spanish, with support from IASB.

15. All IPSAS developed during the third phase work program will be published and distributed to all IFAC members, and can be downloaded from the IFAC website. IPSAS EDs and the studies will be made available free of charge. Hard copies will be mailed directly to 1,500 registrants on IFAC and IPSASB mailing lists, including all DMCs. Copies can be downloaded free of charge at <http://ifac.org>.

C. Cost and Financing

16. The total cost for the third phase work program for 2006–2008 is estimated at \$3,617,000 equivalent. ADB will provide \$245,000 to be disbursed in three tranches equivalent to 6.8% of the total. The TA will be financed on a grant basis by ADB's TA funding program. Other multilateral aid agencies, governments, and other organizations which are expected to provide parallel financing of \$2,185,000 are (i) the World Bank, \$750,000; (ii) Government of Canada, \$450,000; (iii) Canadian Institute of Chartered Accountants, \$400,000; (iv) Government of the People's Republic of China, \$100,000; (v) United Nations, \$225,000; (vi) Inter-American Development Bank, \$100,000; (vii) European Commission, \$150,000; and (viii) Moody's, \$10,000. IFAC will provide \$1,187,000 to fill the gap. Support from the Government of Canada and its accounting institution will help IPSASB a great deal in future financing. However, IPSASB will have to move to Montreal or Toronto from New York. Details of the cost estimates and financing plan are in Appendix 3.

D. Implementation Arrangements

17. IPSASB, the executing agency of the earlier two RETAs, will also be the Executing Agency for the TA. IPSASB will administer TA funds and make all related organizational and administrative arrangements in accordance with standard procedures. As an observer of IPSASB, ADB will monitor and directly supervise TA activities. IPSASB will benefit from ADB's experience and technical expertise. ADB will also provide direct input to the work of IPSASB by reviewing its EDs and reflecting on comments from IFAC's ADB member countries before IFAC issues any guidelines and directives. With this continuing TA support, ADB will continue to be given "observer" status along with other funding agencies to attend IPSASB's meetings to participate in its standard-setting programs.

18. TA implementation will commence in August 2006 and will be completed in December 2008. TA funds will be released to IFAC annually in three installments based on submission of annual progress reports to ADB and the outputs indicated in the annual work program. The first installment will be disbursed to IFAC in the third quarter of 2006 upon its signing of the TA letter of agreement.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$245,000 on a grant basis for Public Sector Accounting Standards (Third Phase), and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Monitoring Mechanisms	Assumptions
Impact Enhance financial reporting, accounting, auditing, and good governance in the public sector to achieve long-term economic objectives and directly benefit developing member countries and international agencies	Published accounting standards for the public sector	IPSASB annual progress reports	<ul style="list-style-type: none"> • IPSASB is competent in this area • IPSASB will deliver the required results
Outcome Enhance financial reporting, accounting, auditing, and good governance in the public sector	Published accrual basis accounting related to public sector specific topics, IPSAS related to IAS, IFRS and GGS convergence program, and review of the implementation of the cash basis IPSAS	IPSASB annual progress reports IPSASB completion report	<ul style="list-style-type: none"> • IPSASB is committed to achieving the TA goals • Funds from ADB, other co-financiers, IPSASB, and IFAC are available for this TA
Outputs Development of accrual basis IPSAS related to public sector specific topics Development of IPSAS in the six exposure drafts under review completed Development of IPSAS commenced on a number of key public sector specific issues dealing with such matters as converging IPSAS with IAS/IFRS, and converging IPSAS with the statistical base of financial reporting of GGS	Number of published accounting standards for the public sector and other reports, such as exposure drafts Number of DMCs furnished with IPSAS developed during the third phase Published IPSAS	Review of exposure drafts and other documents Attendance by an ADB representative at IPSASB conferences to provide guidance and direction IPSASB annual progress reports IPSASB annual progress reports	<ul style="list-style-type: none"> • IPSASB is competent and committed to do its best • ADB is committed to provide guidance and direction • All DMCs that are members of IFAC are sent hard copies of documents or referred to the IFAC website • IPSASB is committed to achieving such convergence programs

Design Summary	Performance Targets/Indicators	Data Sources/Monitoring Mechanisms	Assumptions
<p>Promotion of the IPSAS continued</p> <p>Arrange for translation of IPSAS into two key languages other than English, such as French and Spanish, with the support of IASB</p>	<p>Number of languages into which IPSAS are translated</p>	<p>IPSASB annual progress reports</p> <p>IPSASB completion report</p>	<ul style="list-style-type: none"> • IPSAS are developed during the third phase • IASB is committed to support the translation of IPSAS
<p>Activities with Milestones</p> <p>1. Public Sector Specific Project</p> <p>1.1 Revenue from Non-Exchange Transactions (commenced in 2002)</p> <p>1.2 Social Policy Obligations (commenced in 2002)</p> <p>1.3 Cash basis IPSAS – External Assistance (commenced in 2002)</p> <p>1.4 Budget to Actual Comparison (commenced in 2002)</p> <p>1.5 Heritage Assets</p> <p>1.6 Public/Private Partnerships/Service Concessions</p> <p>2. IAS/IFRS Convergence Program</p> <p>2.1 IPSAS Improvement Program (commenced in 2004)</p> <p>2.2 IAS 19 Employee Benefits</p> <p>3. GGS Harmonization</p> <p>3.1 GGS Reporting (commenced in 2003)</p> <p>3.2 Glossary (commenced in 2003)</p> <p>3.3 Impairment of Cash Generating Assets (commenced in 2005)</p> <p>3.4 Conceptual Framework</p> <p>3.5 Cash Basis IPSAS Review</p>			<p>• Inputs</p> <ul style="list-style-type: none"> • ADB: \$245,000 • World Bank: \$750,000. • Government of Canada: \$450,000 • Canadian Institute of Chartered Accountants: \$400,000 • Government of the People's Republic of China: \$100,000 • United Nations: \$225,000 • Inter-American Development Bank: \$100,000 • European Commission: \$150,000 • Moody's: \$10,000 • IFAC: \$1,187,000 • Total: \$3,617,000

GGS = general government sector, IFAC = International Federation of Accountants, IFRS = International Financial Reporting Standards, IASB = International Accounting Standards Board, IPSAS = International Public Sector Accounting Standards, IPSASB = International Public Sector Accounting Standards Board.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD OF
THE INTERNATIONAL FEDERATION OF ACCOUNTANTS
WORK PROGRAM (2006–2008)**

	Technical Project	2006	2007	2008
A.	Public Sector Specific			
1.	Revenue from Non-Exchange Transactions (commenced in 2002)		Issue IPSAS	
2.	Social Policy Obligations (commenced in 2002)		Issue ED	Issue IPSAS
3.	Cash Basis IPSAS—External Assistance (commenced in 2004)	Issue ED	Issue amendment to IPSAS	
4.	Budget to Actual Comparison (commenced in 2002)	Issue IPSAS		
5.	Heritage Assets	Consultation paper	Issue ED	Issue IPSAS/Amend IPSAS 17
6.	Public/Private Partnerships/Service Concessions	Develop consultation paper	Issue ED	Issue IPSAS
B.	IAS/IFRS Convergence Program			
1.	IPSAS Improvement Program (commenced in 2004)	Issue 6 revised IPSAS	Issue 5 revised IPSAS	
2.	IAS 19 Employee Benefits	Issue ED	Issue IPSAS	
C.	GGs Harmonization	Monitor developments	Monitor development	
1.	GGs Reporting (commenced in 2003)	Issue IPSAS		
2.	Glossary (commenced in 2003)	Issue IPSAS	Update if necessary	Update if necessary
3.	Impairment of Cash Generating Assets (commenced in 2005)	Issue ED	Issue IPSAS	
4.	Conceptual Framework	Issue strategy document	Develop consultation paper	Issue consultation paper
5.	Cash Basis IPSAS review		Review implementation/Issue ED to revise IPSAS	Issue revised IPSAS

ED = exposure draft, GGS = general government sector, IAS = International Accounting Standards, IFRS = International Financial Reporting Standards, IPSAS = International Public Sector Accounting Standards.

Source(s): Asian Development Bank estimates.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Total Cost
A. Cost Estimates	
1. IPSASB Technical Inputs	1,490.0
2. International Travel	620.0
3. Communication and Promotion	915.0
4. Meetings and Conferences	75.0
5. Secretariat and Other Support	307.0
6. Translation	210.0
Total (A)	3,617.0
B. Financing Plan	
1. ADB ^a	245.0
2. World Bank ^b	750.0
3. Government of Canada ^c	450.0
4. Canadian Institute of Chartered Accountants ^d	400.0
5. Government of the People's Republic of China ^e	100.0
6. United Nations ^f	225.0
7. Inter-American Development Bank ^g	100.0
8. European Commission ^h	150.0
9. Moody's ⁱ	10.0
10. (IFAC) ^j	1,187.0
Total (B)	3,617.0

ADB = Asian Development Bank, IFAC = International Federation of Accountants, IPSASB = International Public Sector Accounting Standards Board.

^a Financed by ADB's technical assistance funding program of \$245,000 for 2006–2008.

^b Committed \$250,000 for 2006 and further grants subject to annual review.

^c To be committed for 5 years from the fourth quarter of 2006.

^d In kind, such as office accommodation, staff secondment, and secretarial support, to be committed in 5 years from the fourth quarter of 2006.

^e In kind to be committed in 1 year.

^f Tied to project to develop specific International Public Sector Accounting Standards/conceptual framework.

^g To be committed and tied to conceptual framework and external assistance.

^h Eurostat—tied to develop the International Public Sector Accounting Standards based on International Accounting Standards 19, and subject to IFAC spending 1.5 times Eurostat grant on same project.

ⁱ One-time grant.

^j IFAC board has agreed to the IPSASB work program and budget and is fully informed of its state of finance, and will either commit to fund any shortfall in funding from its own resources (if available) or curtail IPSASB's work program. The IFAC board is actively seeking funding assistance from other multilateral development banks, private foundations, and national governments. The World Bank is seeking to establish a multi-funding agency trust fund to support this and other international accounting initiatives.

Source(s): Asian Development Bank estimates.