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 (IASC)
IASC  International Accounting Standards Committee
IAPC  International Auditing Practices Committee
IIEG  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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I. Introduction

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, lack of transparency, and weak supervision and regulation.¹

The Asian Development Bank (ADB) has been taking initiatives to assist Developing Member Countries (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 in the DMCs. 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.

Regional Technical Assistance (RETA) No. 5877 – Strengthening Financial Management and Governance in Selected DMCs – was approved by ADB for the purpose of carrying out initial studies to identify gaps and weaknesses in financial management and governance and to recommend courses of action to overcome these problems. 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 country

(iii) assess the degree of deviation from International Accounting and Auditing Standards (IAAS) while identifying weaknesses and possible corrective options

(iv) discuss the fieldwork findings and introduce the concepts of the international standards through workshops

(v) develop reference materials for potential users of IAAS, and

(vi) 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.

Seven countries agreed to participate in the study: Cambodia, Mongolia, Pakistan, Papua New Guinea, People’s Republic of China, Uzbekistan, and Viet Nam. The RETA studies were coordinated with the World Bank’s activities in this area, including their Country Financial Accountability Assessment (CFAA) initiatives. In the case of Viet Nam, the ADB study was conducted jointly with the World Bank.

The first part of the study examined the current accounting and auditing structure and systems adopted in each country. 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, together with educational and training arrangements, (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 the study disseminated the findings of the country research through in-country workshops. Each workshop provided a cross-section of views on the research findings and established ways to move forward to improve financial management and governance in the country. The study results and recommendations were further discussed and debated at an international conference at ADB headquarters in Manila on 16-18 October 2000.

This report examines selected financial management and governance issues and summarizes the results of the seven country studies. It was finalized following the October conference. In addition to this introduction, the report has the following chapters:

- **Chapter II** describes the relevance of financial management and governance arrangements to development outcomes. It also identifies symptoms associated with good and bad arrangements.
- **Chapter III** provides contextual background information on the seven countries that participated in the study.
- **Chapter IV** identifies and examines selected financial management and governance issues.
- **Chapter V** describes the situation in each country, identifies weaknesses, and presents recommendations to address these weaknesses.
- **Chapter VI** presents the action plans for each country. It also examines identified regional issues.
II. Importance of Good Financial Governance

1. Introduction

Governance is a widely-used term covering anything from electoral arrangements to institutional structures. Financial management and governance is also a broad term which – for the purposes of this study – is narrowly defined as meaning accounting and auditing institutions and arrangements. This chapter describes the relationship of financial management and governance arrangements to development outcomes, and identifies factors that are associated with good and bad arrangements.

The increased emphasis on financial management and governance arrangements in the past couple of years is primarily due to two factors: analyses of the causes of the Asian financial crisis, and compelling economic research. The remainder of this chapter is structured as follows. Section two reviews an ADB study into the causes of the Asian financial crisis. Section three briefly discusses recent evidence about the importance of governance arrangements to development outcomes such as lower infant mortality. Section four presents a simple framework for examining the symptoms of poor financial management and governance arrangements. Section five concludes the chapter.

2. Causes of the Asian Financial Crisis

The collapse of the Thai baht in July 1997 marked the beginning of Asia's financial crisis. Financial turmoil spread with a ferocity that none foresaw. Millions who had successfully come out of poverty following almost three decades of sustained economic growth, were pushed back into poverty over a short period of two years.

A recent ADB study found that poor enforcement of corporate laws and regulations, underdeveloped capital markets, and high concentration of corporate ownership were the main reasons for weak corporate governance in the countries most affected by the Asian crisis. The study identified several priority reform areas, including: strengthening banking supervision and regulation, and improving financial reporting standards and their enforcement. It made the following four recommendations: (i) corporate ownership structures

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should be rationalized (ownership concentration should be reduced); (ii) corporate internal controls and shareholder protection should be strengthened; (iii) external monitoring and discipline should be strengthened; and (iv) capital markets should be developed and the efficiency of corporate financing improved.

The study concluded that measures aimed at strengthening corporate internal control, improving standards of accounting, auditing and financial reporting systems and their enforcement should be placed at the top of the reform agenda.³

3. Economic Research Findings

There is strong empirical evidence that governance arrangements affect development outcomes. For instance, a 1999 study of governance arrangements in around 160 countries found strong positive relationships between good governance arrangements and per capita incomes, infant mortality rates, and literacy rates.⁴ These researchers collected indicators which they grouped into six governance measures: voice and accountability; political instability and violence; government effectiveness; regulatory burden; rule of law; and graft. They then examined how these six measures affected per capita incomes, infant mortality, and literacy. The study results are striking – Table 1 refers⁵.

Table 1. Effects of a One-Standard-Deviation Improvement in each Governance Measure (Non-OECD Countries)

<table>
<thead>
<tr>
<th>Governance Measure</th>
<th>Increase in per Capita Incomes</th>
<th>Decrease in Infant Mortality</th>
<th>Increase in Adult Literacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and accountability</td>
<td>98%</td>
<td>47%</td>
<td>16%</td>
</tr>
<tr>
<td>Political instability and violence</td>
<td>512%</td>
<td>84%</td>
<td>56%</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>376%</td>
<td>79%</td>
<td>44%</td>
</tr>
<tr>
<td>Regulatory burden</td>
<td>141%</td>
<td>56%</td>
<td>22%</td>
</tr>
<tr>
<td>Rule of law</td>
<td>700%</td>
<td>89%</td>
<td>55%</td>
</tr>
<tr>
<td>Graft</td>
<td>229%</td>
<td>78%</td>
<td>37%</td>
</tr>
</tbody>
</table>

³ Zhuang et al, p. 80.
⁵ These percentages were calculated from the β value for each regression equation.
This research explains previous gaps in the literature on economic growth determinants. It also supports the contention that improving governance should be a top priority for governments and multilateral financing institutions.

These research results are not isolated. In August 2000, the World Bank published another study, which reinforced evidence that, while GDP growth is the single most powerful force in alleviating poverty, growth alone is not enough. This study found that, among other things, countries can double their living standards by improving their legal systems and combating corruption – a particular emphasis should be placed on deepening domestic financial markets, strengthening regulation and financial supervision, and introducing effective corporate governance mechanisms.

4. Symptoms of Good and Bad Arrangements

The previous sections demonstrated the importance of financial management and governance arrangements, but provided no basis for assessing these arrangements. In this respect, Figure 1 presents a simple framework for examining private sector financial management and governance practices – it illustrates the idea that governance arrangements support market interactions.

Figure 1. A Simple Framework of Private Sector Financial Governance

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Table 2 presents information on user objectives, the importance of sound interactions, and indications of good and poor arrangements – from the perspective of financial information users.

Table 2. Indicators of Good and Poor Arrangements

<table>
<thead>
<tr>
<th>Users and Interests</th>
<th>Importance</th>
<th>Good and Poor Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>LENDERS want to recover their principal and earn interest at levels commensurate with risks.</td>
<td>The ability of businesses to access debt finance at reasonable rates affects economic growth. When businesses pay high risk premiums to compensate for unreliable financial information, fewer business opportunities will be viable.</td>
<td>Good: Banks rely on financial statements when making lending decisions. Poor: Banks do not rely on financial statements.</td>
</tr>
<tr>
<td>SUPPLIERS of goods and services want to be paid on time.</td>
<td>The ability to obtain goods and services on credit is a sign of a healthy market economy. It reduces transaction costs and indicates trust in the rule of law. Reliable financial reports provide decision-making information to suppliers.</td>
<td>Good: Goods and services are provided on credit. Poor: Cash payments are required in advance.</td>
</tr>
<tr>
<td>TAXATION AUTHORITIES are presumably interested that the tax system is both fair and efficient.</td>
<td>Tax systems impose: (i) economic costs that result from behavioral changes caused by taxes; (ii) compliance costs incurred by taxpayers; and (iii) administration costs. Studies show that the latter two costs make up around 50 percent of taxes collected. The availability of reliable financial statements provides a good basis for tax assessments and reduces the need for tax authorities to engage in on-site inspections and reconstructions.</td>
<td>Good: Tax authorities rely on financial statements. Poor: Tax authorities ignore financial statements in favor of on-site inspections and reconstructions.</td>
</tr>
</tbody>
</table>

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**IMPORTANCE OF GOOD FINANCIAL GOVERNANCE**

<table>
<thead>
<tr>
<th>Users and Interests</th>
<th>Importance</th>
<th>Good and Poor Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTORS want future economic returns.</td>
<td>Investment is a key driver of economic growth. Businesses need access to foreign and domestic capital. Reliable historical financial information provides a basis for assessing future earnings and solvency.</td>
<td><strong>Good:</strong> Investors rely on forecasts that include historical financial information. <strong>Poor:</strong> Investors do not rely on historical financial information.</td>
</tr>
<tr>
<td>EMPLOYEES are interested in the ability of a business to sustain or increase employment levels and remuneration.</td>
<td>Reliable, transparent and timely financial reports provide employees with a basis on which to assess a business's ability to pay employees.</td>
<td><strong>Good:</strong> Employees have access to reliable financial reports. <strong>Poor:</strong> Employees do not have access to reliable financial reports.</td>
</tr>
<tr>
<td>OTHER groups, such as environmental lobby groups and government policy makers are interested in a wide range of issues.</td>
<td>Reliable and comprehensive financial reports provide information for these groups.</td>
<td><strong>Good:</strong> Reliable financial information is easily accessible. <strong>Poor:</strong> Reliable financial information is not easily accessible.</td>
</tr>
</tbody>
</table>

5. **Conclusion**

This chapter showed that poor financial management and governance arrangements were a key cause of the 1997 Asian Financial Crisis. It also reviewed compelling research that links governance arrangements (including financial management and governance) to development outcomes such as lower infant mortality rates.

Furthermore, the state of accounting systems, financial information, and audit methodologies, play a critical role in the success of

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privatizations. However, the accounting structures and processes of many government enterprises are inadequate. There is evidence to suggest that effective privatization will be more difficult if financial management issues are not addressed beforehand.\(^9\) There is also evidence that this can have a negative impact on the level of privatization proceeds – through valuation difficulties.

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III. Participating Country Backgrounds

1. Introduction

The Asian Development Bank has 38 developing member countries. In early 2000, seven of these countries were approached and invited to participate in this regional study – all accepted the invitation. The decision to invite this particular group of countries was based on several factors including their willingness to participate, geographical location, involvement in the World Bank CFAA exercise, stage of development, and the extent of the Bank’s assistance. It was intended that the participating countries should represent a cross-section of all ADB developing member countries.

This chapter presents background information on the seven countries and provides context for the later chapters in which the financial management and governance arrangements in each country are discussed.

2. Comparative Information

The comparative information presented in Table 3 illustrates the geographical, social and economic differences between the seven participating countries.

Table 3. Comparative Information on the Participating Countries

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Cambodia</th>
<th>People’s Republic of China</th>
<th>Mongolia</th>
<th>Pakistan</th>
<th>Papua New Guinea</th>
<th>Uzbekistan</th>
<th>Viet Nam</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GENERAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surface area (000 km²)</td>
<td>181</td>
<td>9,597</td>
<td>1,567</td>
<td>796</td>
<td>463</td>
<td>447</td>
<td>330</td>
</tr>
<tr>
<td>Population (millions, 1999)</td>
<td>12</td>
<td>1,255</td>
<td>3</td>
<td>134</td>
<td>4</td>
<td>24</td>
<td>77</td>
</tr>
<tr>
<td>Population density (people/km²)</td>
<td>65</td>
<td>135</td>
<td>2</td>
<td>174</td>
<td>10</td>
<td>59</td>
<td>251</td>
</tr>
<tr>
<td>Urban population (% of total, 1999)</td>
<td>23</td>
<td>33</td>
<td>63</td>
<td>36</td>
<td>17</td>
<td>42</td>
<td>20</td>
</tr>
<tr>
<td>Average annual population growth rate (% , 1995-99)</td>
<td>3.7</td>
<td>10</td>
<td>14</td>
<td>2.4</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

### Financial Management and Governance Issues in Selected DMCs

<table>
<thead>
<tr>
<th>Indicator</th>
<th>People's Republic of China</th>
<th>Mongolia</th>
<th>Pakistan</th>
<th>Papua New Guinea</th>
<th>Uzbekistan</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOCIAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under-five mortality rate (per 1000, 1998)</td>
<td>102</td>
<td>31</td>
<td>50</td>
<td>91</td>
<td>59</td>
<td>22</td>
</tr>
<tr>
<td>Life expectancy at birth (years, 1998)</td>
<td>54</td>
<td>70</td>
<td>66</td>
<td>64</td>
<td>58</td>
<td>68</td>
</tr>
<tr>
<td>Adult Literacy Rate (15-yr +, %, 1996-99)</td>
<td>71</td>
<td>84</td>
<td>97</td>
<td>47</td>
<td>72</td>
<td>99</td>
</tr>
<tr>
<td>• Female</td>
<td>61</td>
<td>73</td>
<td>96</td>
<td>35</td>
<td>63</td>
<td>..</td>
</tr>
<tr>
<td>• Male</td>
<td>83</td>
<td>90</td>
<td>98</td>
<td>59</td>
<td>81</td>
<td>..</td>
</tr>
<tr>
<td>Human Development Index (1998)</td>
<td>0.51</td>
<td>0.71</td>
<td>0.63</td>
<td>0.52</td>
<td>0.54</td>
<td>0.69</td>
</tr>
<tr>
<td><strong>ECONOMIC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size of the Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross National Product (GNP) ($ billion, 1998)</td>
<td>2.9</td>
<td>923.6</td>
<td>10</td>
<td>614</td>
<td>4.1</td>
<td>22.9</td>
</tr>
<tr>
<td>GNP per capita ($, 1998)</td>
<td>260</td>
<td>750</td>
<td>380</td>
<td>470</td>
<td>890</td>
<td>950</td>
</tr>
<tr>
<td>GNP per capita average annual growth rate (1997-98, %)</td>
<td>-2.3</td>
<td>6.5</td>
<td>3.2</td>
<td>5.0</td>
<td>0.0</td>
<td>12</td>
</tr>
<tr>
<td>GNP per capita PPP ($, 1998)</td>
<td>1,240</td>
<td>3,220</td>
<td>1,520</td>
<td>1,560</td>
<td>2,700</td>
<td>2,900</td>
</tr>
<tr>
<td><strong>External Accounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Reserves ($ million, 1999)</td>
<td>393</td>
<td>161,414</td>
<td>137</td>
<td>2,117</td>
<td>223</td>
<td>1,168</td>
</tr>
<tr>
<td>Months of imports (1998-99)</td>
<td>4.0</td>
<td>13.4</td>
<td>3.5</td>
<td>2.6</td>
<td>2.3</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Private Sector Finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock Market Capitalization ($ million, 1998)</td>
<td>..</td>
<td>231,322</td>
<td>54</td>
<td>5,418</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Domestic Listed Companies (1997)</td>
<td>..</td>
<td>764</td>
<td>434</td>
<td>781</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Interest Rate Spread (%) (1998)</td>
<td>10.5</td>
<td>2.6</td>
<td>15.7</td>
<td>..</td>
<td>4.0</td>
<td>..</td>
</tr>
</tbody>
</table>
**Participating Country Backgrounds**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>People's Republic of China</th>
<th>Mongolia</th>
<th>Pakistan</th>
<th>Papua New Guinea</th>
<th>Uzbek -istan</th>
<th>Viet Nam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Credit Provided by the Banking Sector (% of GDP, 1998)</td>
<td>7.7 120.0 13.3 50.9 35.7 .. 22.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official Development Assistance</td>
<td>36 2 99 5 78 6 13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollars per capita (1997)</td>
<td>12.1 0.2 26.7 10 7.8 0.5 4.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of GNP (1997)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Cambodia

Cambodia is situated in the Lower Mekong region between Thailand in the west, Viet Nam in the east, and Lao PDR (People's Democratic Republic) in the north. Its level of per capita GDP makes it one of Asia's poorest countries – one third of Cambodia's people live in poverty. A great deal of the country's infrastructure has been destroyed by decades of conflict.

Since independence in 1953, Cambodia has experienced frequent political and economic instability. Before 1953, Cambodia was a French colony for almost a century.

Economically, the worst period of Cambodia's history was from 1975 to 1979 when the country, then known as Democratic Kampuchea, was under the rule of the Pol Pot regime. The market economy and business activities were completely abolished. There was no private ownership, and no money or trade. The economy was cut off from the rest of the world except China. During the period from 1979 to 1989, the People's Republic of Kampuchea (Cambodia) suffered from international embargoes and enforced isolation. The State ran all enterprises. In 1991 the main Cambodian political factions signed the Paris Peace Accord following which the United Nations organized general elections. A new Constitution was promulgated in 1993 and a slow transition to a market economy began.  

In 1999, Cambodia benefited from favorable weather conditions and an improved political climate. Consequently, economic growth was higher in 1999 than in the previous year. Lower inflation, a lower fiscal

---

deficit, and a slightly increased capital account deficit accompanied the improved growth. If the Government can maintain the political stability and reform progress achieved in 1999, economic growth of 6-7 percent per year can be expected over the medium term.\(^\text{12}\)

4. China, People’s Republic of

On 1 October 1949, Mao Zedong proclaimed the People’s Republic of China (PRC) to an audience of 500,000 in Tiananmen Square. Shortly afterwards, central planning was introduced. Beginning in late 1978, the Chinese leadership began to move the PRC from a centrally planned economy to a more market-oriented economy. To this end the authorities switched to a system of household responsibility in agriculture in place of the old collectivization, increased the authority of local officials and plant managers in industry, permitted a wide variety of small-scale enterprise in services and light manufacturing, and opened the economy to increased foreign trade and investment.

The PRC has made tremendous progress in poverty reduction, particularly over the last two decades. Twenty years ago, it was among the world’s poorest countries, with 80 percent of the population living on incomes of less than $1 a day and only a third of all adults able to read or write. In the 17 years from the launching of the PRC’s economic reform program in 1978, the transition from a command to a market-based economy helped fuel a remarkable average growth in GDP of 8 percent a year. Since then, growth has remained relatively strong and incomes have generally continued to rise. Now, only about seven percent of the population between 15 and 25 years old is illiterate, and the PRC’s high life expectancy and low infant mortality rates are envied by much richer nations. The PRC has made great strides in improving social welfare. Consumption has more than doubled and the poverty rate has declined, as 200 million Chinese living in absolute poverty have been raised above the minimum poverty line.\(^\text{13}\)

Prudent macroeconomic policy aided the PRC in adjusting to the Asian crisis. In 1999, growth slowed slightly and prospects are that a rate lower than the trend in the 1990s can be sustained in the medium term. The challenges will be continuing the reform process of opening the economy, improving efficiency in the state sector, addressing


unemployment issues, and developing a legal and regulatory framework essential for efficient functioning of a market economy.  

5. Mongolia
Following independence from China in 1921, Mongolia became the second country after Russia to adopt communism in 1922. It remained closely tied to the Soviet Union until the end of the 1980s. In the period 1990-92, however, Mongolia moved away from a monopoly of political power by the communist party to free multiparty elections, a new constitution, and greater cultural and religious freedom with more emphasis on national Mongol traditions, as well as toward some elements of a market economy. Mongolia’s transition to a market economy, which began in 1990, has proceeded satisfactorily, and the private sector is now the main producer of goods and services.

Mongolia’s severe climate, scattered population, and wide expanses of unproductive land have constrained economic development. Economic activity traditionally has been based on agriculture and the breeding of livestock. In past years, extensive mineral resources had been developed with Soviet support – total Soviet assistance at its height amounted to 30 percent of GDP, but disappeared almost overnight in 1990-91. Economic growth picked up in 1997 and 1998 after stalling in 1996 due to a series of natural disasters and declines in the world prices of copper and cashmere. Real GDP growth in 1999 was estimated to be 3.5 percent. Mongolia’s immediate challenges are reducing poverty and resolving the public sector imbalances that impede growth and promotion of private sector activity.

6. Pakistan
Pakistan is an Islamic Republic and its capital is Islamabad. Its assets include a rich cultural heritage, abundant natural and human resources, a large and potentially more productive agricultural sector, and a strategic location for trade. Although Pakistan has been burdened by internal political instability and costly regional conflicts in its first 53 years of independence, it has still managed to achieve substantial economic growth.

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While Pakistan’s social welfare indicators have improved over the past two decades, progress remains slow and the challenges daunting. Only 47 percent of the population is literate, compared to the average literacy rate of 49 percent in South Asia and 53 percent in low-income countries worldwide.\textsuperscript{17}

The economy has been slowly recovering since the second half of 1999 because of improved agricultural performance. However, the balance of payments remains fragile and economic stagnation hampers the Government’s efforts to reduce rampant poverty. Medium-term economic prospects depend on political stability, structural reforms, and capital inflows.\textsuperscript{18}

7. Papua New Guinea

The island of New Guinea is divided into two countries: Irianjaya (Indonesia) to the west and Papua New Guinea (PNG) to the east. Papua New Guinea consists of the mainland and numerous smaller islands, the largest of which are New Britain, New Ireland, North Solomons and Manus. Much of the terrain is extremely rugged with high mountain ranges and steep valleys with fast flowing rivers. In contrast, along the coast, there is an extensive system of marshes. The country has only a few major roads, and many towns and villages are accessible only by air, foot or boat. The capital city, Port Moresby, lies on the south coast.

Papua New Guinea is noted for its cultural and linguistic variety. Seven hundred languages are spoken. The main language is Melanesian pidgin, which is spoken widely throughout the country, and hiri-motu, which is spoken in some parts of the south coast. English is the language of education, administration and commerce.\textsuperscript{19}

External shocks and economic mismanagement made 1999 a difficult year. However, following the appointment of a new government, the economic growth rate surpassed expectations to reach 3.9 percent. Future growth will depend upon maintaining good governance and spreading the benefits of development to the poor.\textsuperscript{20}


8. Uzbekistan

The Republic of Uzbekistan was founded on 31 August 1991 following independence from the Soviet Union. Its capital is Tashkent. Following independence, the Government sought to prop up its Soviet-style command economy with subsidies and tight controls on production and prices. Faced with high rates of inflation, the Government began to reform in mid-1994 by introducing tighter monetary policies, expanding privatization, slightly reducing the State's role in the economy, and improving the environment for foreign investors. Uzbekistan initially responded to the negative external conditions generated by the Asian and Russian financial crises by tightening export and currency controls within its already largely closed economy.

While Uzbekistan’s GDP fell by about 20 percent during 1991-1995, the economic contraction was not as severe as that of other Central Asian republics of the former Soviet Union. Uzbekistan resumed moderate growth in 1996 averaging 4.8 percent annually in the two years that followed. Growth has since slowed and this is attributed to persisting needs for additional structural transformation, including large-scale privatization, agricultural liberalization, and capital market development.\(^{21}\) GDP growth of 4.4 percent in 1999 was maintained, although international prices for Uzbekistan’s primary exports continued to be weak. Major structural reforms to sustain macroeconomic stability and growth are necessary, as well as policy measures to soften the short-term social effects of these reforms.\(^{22}\)

9. Viet Nam

Viet Nam is 1,750 kilometers long and has a land area of around 330,000 square kilometers. The east coast and southern tip of Viet Nam border the South China Sea, and the People’s Republic of China, the Lao Democratic Republic and Cambodia lie to the north, west and southwest respectively. Two large river systems dominate the north and south of the country. In the north, the Red River flows through Hanoi and the port of Haiphong into the Gulf of Tongkin. In the south, the Mekong River flows through the Mekong delta south of Ho Chi Minh City into the South China Sea.


Viet Nam’s population of 80 million comprises a number of ethnic groups, each with its own culture and language. The national language is Vietnamese. English is emerging as the most readily used and understood language between foreign businesspeople and Vietnamese citizens. French is still widely spoken, and many Vietnamese speak and understand Russian or German.\textsuperscript{23} Viet Nam has a well-educated population, with a literacy rate of around 90 percent. With the loss of reform momentum and the economic slow down over the last two years, the sustainability of past gains on poverty reduction is at stake. Carrying the process of poverty reduction forward in the coming years will require embarking on a second set of reform measures focused on diversifying rural livelihoods.\textsuperscript{24}

IV. Selected Issues In Financial Governance

1. Introduction

This chapter identifies and examines selected financial management and governance issues that are relevant to the participating countries. The chapter is structured as follows. Section two describes moves to develop international guidelines and to monitor country compliance with these guidelines. Sections three and four examine International Accounting Standards (IASs) and accounting-standard-setting processes. International Standards on Auditing (ISAs) and responsibilities for setting accounting standards are discussed in sections five and six. Some guidelines for assessing the essential components of a professional accountancy body are provided in section seven. Section eight examines education and training guidelines, and the recent release of International Public Sector Accounting Standards (IPSASs) is discussed in section nine. The chapter concludes with section ten.

2. International Guidelines and Surveillance

The international community is supporting the development of guidelines, standards, and codes to assess financial management and governance practices (Table 4 refers). ADB is also developing a governance “scorecard” which is based upon a checklist of governance indicators. These guidelines, standards, and codes - to varying extents - all involve accounting and auditing arrangements. Furthermore, in an attempt to identify and avoid potential crises before they occur, the IMF and the World Bank have together embarked on a series of experimental Reports on the Observance of Standards and Codes (ROSCs). These reports summarize the extent to which countries observe certain internationally-recognized standards. While ROSCs are intended to be voluntary, the information provided by each country (or not provided, as the case may be) is likely to influence country dealings with International Financial Institutions, and the level of confidence that the international financial community has in a country.

Table 4. Selected International Guidelines, Standards and Codes

<table>
<thead>
<tr>
<th>International Guideline, Standard or Code</th>
<th>Promulgated By</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Principles of Corporate Governance</td>
<td>Organization for Economic Cooperation and Development (OECD)</td>
</tr>
<tr>
<td>• Code of Good Practices on Fiscal Transparency</td>
<td>International Monetary Fund (IMF)</td>
</tr>
<tr>
<td>• Code of Good Practices on Transparency of Monetary and Financial Policies</td>
<td>International Monetary Fund (IMF)</td>
</tr>
<tr>
<td>• Implementation of the Objectives and Principles for Securities Regulation</td>
<td>International Organization of Securities Commissions (IOSCO)</td>
</tr>
<tr>
<td>• International Accounting Standards (IASs)</td>
<td>International Accounting Standards Committee (IASC)</td>
</tr>
<tr>
<td>• International Public Sector Accounting Standards (IPSASs)</td>
<td>International Federation of Accountants (IFAC)</td>
</tr>
<tr>
<td>• International Standards on Auditing (ISAs)</td>
<td>IFAC</td>
</tr>
<tr>
<td>• Draft Banking Supervision Guidelines</td>
<td>Basel Committee</td>
</tr>
</tbody>
</table>

3. **International Accounting Standards**

**Introduction**

Differences in financial reporting practices and accounting standards can be significant between countries. The factors that influence the development of accounting practices and the differences between countries in terms of these practices, include: the nature of a country’s legal system, the prevalent providers of finance, the influence of taxation, and the strength of the accountancy profession.

IASs have been developed to reduce national differences in accounting and financial reporting practices. The International Accounting Standards Committee (IASC), which was established in 1973, develops and issues IASs. Its objective is to achieve uniformity in the accounting principles that businesses and other organisations around the world use for financial reporting. The IASC’s intention is to
improve the ability of investors, creditors, governments, and others to make informed resource allocation and policy decisions. Thirty-four IASs were effective at 30 September 2000 (Appendix 1 refers) and more are being developed (Appendix 2 refers). In recent years, many countries have either adopted IASs completely or have modified IASs to suit their particular national requirements. A 1996 survey examined the extent to which countries use IASs – the survey results, which have been updated for the countries involved in this study, are presented in Table 5. Sixty of the 71 countries, or 85 percent, listed in Table 5 use IAS to some extent.26 The remainder of this section examines why so many countries are 'harmonizing' with IAS and the criticisms of this move.

Table 5. Use of International Accounting Standards27

<table>
<thead>
<tr>
<th>Use of IASs</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IASs Used Directly</strong></td>
<td></td>
</tr>
<tr>
<td>• IASs used directly as national</td>
<td>Croatia, Cyprus, Kuwait, Latvia,</td>
</tr>
<tr>
<td>standards and explanatory</td>
<td>Malta, Oman, <strong>Pakistan</strong>, Trinidad &amp; Tobago.</td>
</tr>
<tr>
<td>material is added.</td>
<td></td>
</tr>
<tr>
<td>• IASs used directly. National</td>
<td>Malaysia, <strong>Papua New Guinea</strong>.</td>
</tr>
<tr>
<td>standards are developed for</td>
<td></td>
</tr>
<tr>
<td>topics not covered by IAS and</td>
<td></td>
</tr>
<tr>
<td>explanatory material added.</td>
<td></td>
</tr>
<tr>
<td>• IASs are used directly as national</td>
<td>Albania, Bangladesh, Barbados,</td>
</tr>
<tr>
<td>accounting standards but, in some</td>
<td>Colombia, Jamaica, Jordan, Kenya,</td>
</tr>
<tr>
<td>cases, may be modified for</td>
<td><strong>Mongolia</strong>, Poland, Sudan, Swaziland, Thailand, Uruguay, Zambia,</td>
</tr>
<tr>
<td>local conditions and</td>
<td>Zimbabwe. (25 countries)</td>
</tr>
<tr>
<td>circumstances.</td>
<td></td>
</tr>
<tr>
<td><strong>National Standards Based On IASs</strong></td>
<td>People's Republic of China, Iran,</td>
</tr>
<tr>
<td>• National accounting standards</td>
<td>Philippines, Slovenia, Tunisia,</td>
</tr>
<tr>
<td>are separately developed but are</td>
<td><strong>Uzbekistan</strong>.</td>
</tr>
<tr>
<td>based on, and are similar to, the</td>
<td></td>
</tr>
<tr>
<td>relevant IAS. National accounting</td>
<td></td>
</tr>
<tr>
<td>standards generally provide</td>
<td></td>
</tr>
<tr>
<td>additional explanatory only.</td>
<td></td>
</tr>
</tbody>
</table>

26 Seven of the other 11 countries, which are European Union members, will be required to harmonize their accounting standards with IAS by 2005.
<table>
<thead>
<tr>
<th>Use of IASs</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>- National accounting standards are separately developed but are based on, and are similar to the relevant IAS, in most cases. However, some standards may provide more or less choice than IASs.</td>
<td>Brazil, Czech Republic, France, India, Ireland, Lithuania, Mauritius, Mexico, Namibia, Netherlands, Norway, Portugal, Singapore, Slovak Republic, South Africa, Switzerland, Turkey.</td>
</tr>
<tr>
<td>- National accounting standards are separately developed but are based on, and are similar to the relevant IAS, in most cases. Each standard includes a statement that compares the national standard to IASs.</td>
<td>Australia, Denmark, Hong Kong, Italy, New Zealand, Sweden, Yugoslavia. (30 countries)</td>
</tr>
</tbody>
</table>

**IASs Used Informally**

- National accounting standards may or may not exist, but IASs, while not formally adopted, is usually used for private sector reporting.

<table>
<thead>
<tr>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana, Cambodia, Lesotho, Romania, Viet Nam. (5 countries)</td>
</tr>
</tbody>
</table>

**National Accounting Standards are Separately Developed**

<table>
<thead>
<tr>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria, Belgium, Canada, Finland, Germany, Japan, Korea, Luxembourg, Spain, United Kingdom, United States. (11 countries)</td>
</tr>
</tbody>
</table>

The Global Trend towards International Accounting Standards

"I became convinced that international standards were necessary. I used not to think so, but I now speak with total conviction that they are necessary. A Japanese aircraft is approaching John F Kennedy airport in New York in fog. Should the pilot proceed by his own rules and should he attempt to converse with the ground staff in Japanese? (I deliberately introduced fog into the analogy because finding one's way through some financial statements I have seen is like groping through a fog). Business, like everything else, has to be conducted by reference to certain rules and regulations, or else chaos reigns. If a multinational company is raising money on world markets there must surely be some international standards by which its operations are judged."

- Lord Henry Benson, Initiator and first Chairman of the IASC

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The forces of globalization, combined with an assessment of the causes of the 1997-1998 Asian financial crisis, are driving a worldwide trend to harmonize accounting and auditing standards. For instance, the first objective listed in the Confederation of Asian and Pacific Accountants' mission statement is to “enhance the standards and development of the profession by promoting harmonization through the adoption of IFAC and IASC pronouncements.”

Appendix 3 recounts the history of the development of IASs. The following reasons are given for harmonizing accounting standards:

- **Comparability** - The basis for preparing financial reports can vary widely from country to country, and sometimes even within a country. This is unsatisfactory from the point of view of company management, because: (i) it can increase the costs of preparing financial reports (a multinational company may have to prepare different reports on its operations for use in different countries); and (ii) businesses must have a uniform system for assessing the financial performance of their operations in different countries.

- **Usefulness** - IASs are useful for countries that do not have a national standard setting body or do not have the resources to undertake the full process of preparing accounting standards. The preparation of accounting standards involves considerable cost and, quite apart from the advantages of uniformity, it would not be economic for each country to have a separate process.

**Criticisms of International Accounting Standards**

Three criticisms are commonly made of IASs. First, some commentators criticize IASs for being insufficiently detailed. This means that accountants and auditors have to exercise professional judgment. In response, an accounting standard “should be clear enough so as to leave no doubt as to what is intended and sufficiently precise so that users can understand what has been done in preparing the financial statements. Excessive details should be avoided, as this is likely to be counter-productive. The two qualities which are essential to any accountant if he is going to succeed in the pursuit of his profession are judgment and common sense and both should be brought fully into play in writing international standards.”

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Second, some people argue that accounting rules should not be formulated to cater to the needs of a small number of firms that are already listed (or will be listed) on foreign stock exchanges. They also argue that an accounting environment characterized by a lack of an independent auditing profession is unsuitable for IASs. The second point has some validity when taken together with the previous paragraph. In particular, it means that countries adopting International Accounting Standards must pay attention to the creation of a strong, independent accounting and auditing profession.

Third, some people say that IASs have an Anglo-Saxon bias. There is a natural fear in every country that, in preparing international accounting standards, the views or practices of one country will be given undue emphasis to the exclusion of those in other countries. In practice, however, IASC goes to great pains to try to secure balanced standards that do not place improper emphasis in any direction.

Moving to International Accounting Standards

Until quite recently, accounting and auditing practices have varied significantly between countries. By identifying commonalities, it is easier to understand the common issues that the seven participating countries are facing as they move towards adopting IASs. In this respect, Table 6 classifies 44 countries, including the seven study participants, into two broad accounting systems, and five accounting models.

All seven participating countries have either moved, or are moving, to an IAS-type framework. Of the options presented in Table 6, the authors support the direct or modified use of IASs for three reasons. First, countries can only claim that they are using IASs if they use them directly. Second, the rate at which IASs are issued in the next five years will increase dramatically. Those countries that have opted to modify IASs will incur significant costs as they absorb the impacts of these additional standards.

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# Selected Issues in Financial Governance

## Table 6. Accounting Practices Classified by Country Grouping

<table>
<thead>
<tr>
<th>Accounting System</th>
<th>Accounting Model</th>
<th>Features</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Union</td>
<td></td>
<td>• Government driven</td>
<td>People’s Republic of China, Mongolia, Russia, Uzbekistan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Dominated by statistics and taxation requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Accounting practices are statute-based</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Accountancy profession not required</td>
<td></td>
</tr>
<tr>
<td>Uniform Accounting Plans</td>
<td></td>
<td>• Government driven</td>
<td>Belgium, Cambodia, France, Germany, Italy, Spain, Sweden, Switzerland, Vietnam, Venezuela.</td>
</tr>
<tr>
<td>Continental European</td>
<td></td>
<td>• Dominated by taxation requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Accounting practices are statute-based</td>
<td></td>
</tr>
<tr>
<td>Latin American</td>
<td></td>
<td>• “Castilian model”</td>
<td>Argentina, Bolivia, Chile, Colombia, Ethiopia, Paraguay, Peru, Uruguay.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Very similar to continental European model</td>
<td></td>
</tr>
<tr>
<td>British Commonwealth Standards Based Accounting</td>
<td></td>
<td>• Commercially driven</td>
<td>Australia, Bahamas, Ireland, Fiji, India, Jamaica, Kenya, Netherlands, New Zealand, Pakistan, Papua New Guinea, Zimbabwe, Singapore, South Africa, Trinidad &amp; Tobago, United Kingdom.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Overriding rule is that financial statements show a ‘fair’ picture.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Accounting practices reflect, and develop with, business practices</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Professional regulation dominates.</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>Same as Commonwealth Model except that:</td>
<td></td>
<td>Canada, Japan, Mexico, Panama, Philippines, United States.</td>
</tr>
<tr>
<td></td>
<td>• Professional regulation coexists with extensive regulated disclosures.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Third, in general, the analyses of the accounting standards of each country that participated in this study identified minor deviations from IASs. In most cases, these deviations were due to accounting policy choices being restricted. These restrictions could have been applied through separate regulations rather than by modifying the IASs themselves.

4. Accounting Standard-Setting Processes

There are five standard-setting phases:\(^{35}\)

(i) Design – a particular aspect of accounting is identified and researched and an exposure draft prepared; (ii) Approval – the draft is subjected to review and, if it survives, it is approved as a standard; (iii) Education – financial statement users and preparers are educated in the impacts and implementation of the new standard; (iv) Implementation – the requirements of the new standard are implemented by financial statement preparers; and (v) Enforcement – compliance is monitored and, if necessary, appropriate remedial action is taken.

Those countries that adopt IAS directly need only bother with the latter three stages. The process for setting accounting and auditing standards should be:

- **Transparent** Interested parties should be kept informed of developments.
- **Orderly** A process and timetable should be designed and communicated to interested parties.
- **Inclusive** Interested parties should have the opportunity to make their views known. The process of reconciling alternative views should be transparent.

Appendix 4 describes the IASC process for developing an IAS (for reference purposes).

5. International Standards on Auditing

Auditing is a systematic process involving steps such as; accepting and agreeing the terms of audit engagement, planning, gathering audit evidence, and reporting. IFAC’s International Auditing Practices

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\(^{35}\) Nobes and Parker (1995) identify only three phases: design, approval and enforcement. In the Authors’ opinion, particularly in developing countries, education and implementation are also important phases (Nobes, Christopher and Robert Parker. 1995. Comparative International Accounting Fourth Edition: Prentice Hall. pp. 108–114).
Committee (IAPC) works to improve the degree of uniformity of auditing practices and related services throughout the world by issuing pronouncements on auditing issues and promoting their acceptance worldwide. Its key pronouncements are International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPSs). The list of ISAs and IAPSs that were effective at 30 September 2000 is provided as Appendix 5.

National standards on auditing and related services that have been published in many countries differ in form and content. The IAPC recognizes these documents and differences and, in the light of this knowledge, issues ISAs which are intended for international acceptance. ISAs are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services. These standards outline basic responsibilities for auditors, help them cope with increased and changing demands for financial statement information, and provide guidance in specialized areas, such as auditing computer information systems. They are codified and available in a bound volume or through an electronic subscription service. IAPSs provide practical assistance to auditors in implementing the standards or on related subjects and promote good practice. These statements are not intended to have the authority of standards.

6. Responsibility for Setting Accounting Standards

The issue of whether accounting standard setting should be a government or private sector function is a common one for many countries. Three factors influence the assignment of this. First, the role that the central government plays in the economy. Second, the status of the legal system – in European countries, where the legal system’s status is considered to be paramount (e.g., Germany and France), financial reporting requirements are codified in laws. Third, the influence of historical factors – for instance, accounting standards in Anglo-Saxon countries were traditionally developed by professional organizations, such as the Financial Accounting Standards Board (FASB) in the US, and the Accounting Standards Committee in the UK.

Institutional structures are largely the product of a country’s historical and cultural environment. Given the pace of change in developing countries (and particularly in transitional countries), there is

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no time for the organic development of institutions. Hence, institutional structures are often borrowed directly from other countries.

Internationally, the institutional arrangements for accounting standard-setting are tending towards the American model, whereby a semi-independent body sets accounting standards, which then have legal status. Countries where accounting standard-setting was a core government responsibility (such as those in the European Union) are moving towards this model, as are countries where accounting standard-setting was previously the responsibility of professional organizations (e.g., Australia and New Zealand).

Transitional and developing countries tend to assign accounting standard-setting responsibilities to government organizations, such as the Finance Ministry. Along with historical reasons, a transitional lack of capacity in the accounting profession is cited as a reason for this approach. This approach is risky for the following reasons: (i) accounting standards tend to be prescriptive rules rather than standards per se; (ii) accounting practices can become driven by taxation concerns; (iii) this top-down approach does not consider the needs of the users of financial statements; (iv) little importance is placed on the importance of external information, and (v) the accounting and auditing profession tends to remain undeveloped.37

Furthermore, the IFAC President stated that “a reason why the 142 member bodies have in some cases found it difficult to ensure that the international standards are introduced, despite their best endeavors, may be that the standard setters are not within their control. There are many countries where the standards on accounting and auditing are outside the control of the accounting profession – although the accounting profession may still play a significant part in the development of the national standards. Member bodies may well be trying to persuade the national standard setters to follow the international standards but the power to mandate them lies elsewhere.”38

7. Strength of the Accounting Profession

In 1998, the Confederation of Asian and Pacific Accountants (CAPA) issued the Guide on the Essential Components of a Professional Accountancy Body, which covers ten components as follows: 39

(i) Admission / Advancement Standards (entry level membership admission requirements, and professional program).

(ii) Full Membership Requirements (educational requirements; professional program requirements; experience requirements; fees payable; professional body, statutory or registration requirements; and permitted activities).

(iii) Continuing Professional Education (mandatory and voluntary requirements, continuing professional education provision; compliance reporting by member; and noncompliance penalties).

(iv) Technical Standards (setting and usage of national accounting standards and their status; and the setting and usage of national auditing standards; status of International Accounting Standards, status of International Standards on Auditing adopted; involvement in the standard-setting process (national and international); and standards prescribed in legislation).

(v) Quality Assurance / Peer Review Program (program in place; compliance requirements; and penalties for noncompliance).

(vi) Registration as Accountant / Auditor (activities covered - public accountancy, corporate audit, taxation; practice requirements; professional body requirements; and noncompliance penalties).

(vii) Disciplinary Rules (existence of disciplinary rules; enforcement procedures are in place and are published; involvement of nonmembers in disciplinary hearings; and penalties and appeals processes in place).

(viii) Management and Administrative Structures (mission statement and objectives; and business plan in place).

(ix) Governance (type of entity; governing body; composition, duties and responsibilities, election by members; governance structure including committees, divisions and branches; voting rights of members; involvement in accounting and auditing standard setting process; and strategic plan and budget in place).

(x) External Affiliations / Memberships (national, international and regional).

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8. Accounting Education and Training

In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practices and trends. The quality of undergraduate teachers is a key factor in developing competent accountants (Figure 2 refers).

Figure 2. Education and the Competence of Accountants

The issue of competence and its assessment has become a major issue within the accounting profession. Unfortunately, there is a lot of confusion related to it, since the term "competence" is commonly used to mean different things in an everyday context as well as in academic discussions. Moreover, what one deems desirable may not be deemed desirable by another, and what is considered to be acceptable performance by one may not be acceptable to another.

In order to clarify these issues, both IFAC and the United Nations Conference on Trade and Development (UNCTAD) have issued Guidelines and Standards on accounting education and professional competence. These are discussed in the following sub-sections. Furthermore, UNCTAD has initiated a project to assess the competence of accountants. The objective of the project is to rate professional accounting qualifications from around the world and, in doing so, create impetus for improvements and support international skill transferability.

UNCTAD Guidelines on Accounting Qualifications

In February 1999, UNCTAD issued a report on accounting education and qualifications.\(^{40}\) The report provides a very useful set of benchmarks in respect of these issues, in particular:

- Guideline for a Global Accounting Curriculum and Other Qualification Requirements (Includes the requirements for the

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qualifications of professional accountants, and the guideline for
national systems for the qualifications of professional accountants)

- Global Curriculum for the Professional Education of Professional
  Accountants (Includes organizational and business knowledge;
  information technology; and accounting and accounting-related
  knowledge).

IFAC Education Standards and Guidelines
The Education Committee of the International Federation of
Accountants (IFAC) has also issued a series of International Education
Standards (IESs) and International Education Guidelines (IEGs). The
IESs are intended to establish the essential elements on which education
and training programs, both pre-qualification and post-qualification, for
all accountants should be founded. Although they cannot override
authoritative local pronouncements, they are essentially prescriptive in
nature. The IEGs promote good practice and or provide good advice.
They are based on careful study of the best practices and most effective
methods for dealing with the issues being addressed.

9. International Public Sector Accounting Standards
Government accounting took a big step forward on 24 May 2000, when
IFAC issued the first set of international public sector accounting
standards (IPSASs). Appendix 6 summarizes these IPSASs.

Most countries are progressively harmonizing their private sector
accounting standards with IASs. They aim to improve the quality and
comparability of corporate financial information. In contrast, the
financial reports of public sector organizations vary significantly across
the world. First, while most countries require businesses to prepare and
publish balance sheets, few require this discipline of public sector
organizations. Second, up until May 2000, there were no international
accounting standards for preparing public sector financial information.

In early 1996, the Public Sector Committee (PSC) of IFAC initiated
a project to prepare a set of IPSASs. The benefits of improved
governmental financial reporting and the corresponding improvement in
transparency were recognized by international and regional
organizations, including ADB, the World Bank, the IMF, and the UNDP,
all of which provided funding for the public sector accounting standards
project.

On 24 May 2000, IFAC formally released the first eight IPSASs. The
standards are the first set of accounting standards applicable to
public sector reporting and are intended to meet the needs of governments, ministers, taxpayers, and credit-rating agencies. The standards apply to all levels of government and will provide governments with a platform on which to base improvements in their financial management and reporting practices. Further IPSASs are currently being developed, with another six draft IPSASs published for comment in July 2000. The PSC recognizes that many governments may not yet be in a position to adopt the accrual-based IPSASs. To assist these governments, the PSC has also developed an exposure draft ED-9 Financial Reporting under the Cash Basis of Accounting. ED-9 sets out the requirements for the presentation of the primary financial statement under the cash basis of accounting, as well as the statement’s structure and minimum content requirements. The requirements that are likely to emerge in this standard should lead to transparency where governments remain on the cash basis of reporting.

The case for adopting IASs in the private sector is clear. But, why should countries adopt international standards for public sector reporting? The prime users of government financial reports include taxpayers, voters, financial institutions, international development institutions and credit-rating agencies (such as Moody’s and Standard & Poor’s). The latter three groups look very closely at government financial information. They compare this information with international benchmarks. Their opinions move country interest rates and currency levels. When a country’s government financial information is poor, this will be reflected in base interest rates. So, on the basis that national public sector accounting standards will be trusted less than international standards, countries that develop and apply their own government accounting policies will pay higher interest rates.

10. Conclusion
The selected issues that were reviewed in this chapter are all relevant to the seven participating countries. For instance, the gradual introduction of Reports on the Observance of Standards and Codes (ROSCs) is going to place countries under pressure to conform to international standards and codes.
V. Country Issues and Recommendations

This chapter summarizes the findings and recommendations that are provided in the seven individual country reports.

1. Cambodia

Developments and Challenges
Under the new Constitution, democratic principles were reintroduced and private ownership was allowed. The public sector was organized through the Legislature, the Executive and the Judiciary. Important laws were passed including the Law on Investment (1994), the Chamber of Commerce Law (1995), the Commercial Register Law (1995), the Cambodia Investment Board (1995), the Law on Taxation (1997) and the Audit Law (2000). The current accounting problems include:

- no Company Law
- no Accounting Law
- no International Accounting and Auditing Standards
- no Profession or Accounting Society
- very few qualified Cambodian accountants
- very few regulatory agencies
- inadequate accounting education.

Accounting and Auditing in Cambodia
The accounting system in Cambodia is governed by the General Accounting Plan, which was issued by the Ministry of Economy and Finance (M EF) in 1993. The Plan contains a recommended Chart of Accounts, list of accounts to be applied, accounting treatment, accounting principles and guidelines for financial statement presentation. Foreign companies have unofficially adopted International Accounting Standards (IASs) due to the requirements of their overseas parent companies and the influence of existing international accounting firms in Cambodia.

The draft “Law on Corporate Accounts, their Audit and the Accounting Profession” if passed by the National Assembly, will pave the way for the establishment of an accounting profession, including accounting standards, an Institute of Certified Public Accountants (CPAs) and a National Accounting Council.

The Audit Law was passed in March 2000 and established the position of Auditor-General and a department. An Auditor-General has not yet been appointed. There are only seven accounting firms in
Cambodia and three of the international big five accounting firms are represented.

Professional Infrastructure
There is no officially recognized accounting society or organization in Cambodia nor is there any regulated accounting profession. Cambodia’s market is cash based and there are limited commercial and industrial sectors. If the draft Accounting Law is passed this will provide for accounting regulations and the establishment of an Institute and a profession. The Royal Government of Cambodia (RGC) has initiated a Financial Accountability Development Program, the objectives of which are to:

• establish an Institute of Certified Public Accountants in Cambodia
• establish an independent Financial Accounting and Auditing Standards Board, and
• design appropriate accounting and auditing education and training programs.

Accounting and Auditing Standards
The only “formal” accounting system in Cambodia is the General Accounting Plan. Some differences between the Plan and IASs are identifiable as follows:

• Balance Sheet presentation.
• The Income Statement is recorded using expense items rather than functional classification.
• Some extraordinary items would be classified as operating items under IASs.

A working party to consider the introduction of IASs was formed in 1995 and later disbanded in the same year by the Government. French Government assistance and World Bank assistance involving the introduction of IASs is currently being used on projects in Cambodia. No consideration has been given to the application of Public Sector Accounting Standards.

Education and Training
The availability of quality accounting and auditing training in Cambodia is limited. There are four State-owned public institutions and five privately owned institutions providing fulltime education in accounting. The general curriculum in four-year degree courses includes Analytical Accounting, General Accounting, Financial Accounting, Cost
Accounting, Managerial Accounting, International Accounting and Auditing.


Government Budgeting and Accounting
The Constitution includes articles that cover the preparation and approval of the National Budget and the Administrative Accounts (Public Accounts). The National Budget is the responsibility of the Department of Budget and Finance and a Financial Management Law is passed each year which proclaims the approval of the budget. The Annual Public Accounts are submitted to the National Assembly each year for approval. The most recent approval given was for the year 1998.

There are no standard financial performance indicators used as benchmarks for project or enterprise performance.

The Department of Public Property is responsible for Asset Management and Control. A new computerized system of asset recording was introduced in 1999 however, the system is not operating and operators need to be trained in order to activate the system.

Donor Assistance
ADB Assistance include a Technical Assistance Project (TA 5866-CAM) for Developing Capacity in Audit and Inspectorate Function. The TA led to the drafting of the recently enacted Law on Audit and other procedures involving the establishment of an External and Internal Audit Function in Cambodia. In addition to this TA, further assistance for Capacity Building in Audit Function II and for Strengthening Capacity in Public Finance Management have recently been proposed.

French Government Assistance has recently been used in the areas of:
- Public Sector Accounting
- Private Sector Accounting
- Revenue mobilization through Taxation
- Computerization for Ministry of Economy and Finance

World Bank Assistance (IDF Grant No. TF027305) has recently been used for the following tasks:
- Draft an Accounting and Auditing Law
- Draft Reports on Accounting and Auditing Standards
• Draft a report recommending examination, certification, and licensing professional accountants and auditors
• Develop a 30-hour training module for informing Government officials on the new proposed IASs for Cambodia

European Union assistance has been used for the installation of a new computerized system of Government Asset Recording for both line ministries and provinces.

Issues and Recommendations
This part presents the issues and recommendations that are associated with gaps or weaknesses in Cambodian accounting and auditing arrangements.

The Accounting Profession
Cambodia needs to establish an accounting profession that delivers a high quality of service to both the public and the private sector. In order to establish a strong accounting profession in Cambodia the following steps should be taken: upgrade the level of accountancy training; legally form a professional society of accountants; adopt International Accounting Standards by law; and establish an independent Accounting Standards Board. It is recommended that: (i) a professional institute of accountants be formed in Cambodia and be given due recognition by law. If adopted, the draft Accounting Law would legally establish such an institute; and (ii) International accounting standards be adopted as a base for the development of appropriate local accounting standards.

Accounting Training
The courses of the present institutions involved in accountancy and auditing training fall short of international standards. However, these institutions are reasonably well equipped and consideration should be given to upgrading accountancy education in Cambodia in order that an internationally accepted level is reached. It is recommended that: (i) the RGC explore the possibility of upgrading the current accounting courses on offer in Cambodia to that of an international standard; (ii) the RGC makes inquiries as to the possibility of sponsored distance learning or correspondence courses with overseas universities on a quantitative basis; (iii) the RGC approach bilateral aid agencies requesting accounting scholarships for Cambodian students; and (iv) technical assistance be provided in the field of postgraduate commercial training.
Training for Accounting Lecturers and Professors
There is no specific advanced training program for continuing education of accounting lecturers and professors. Many factors support the development of competent accountants. The quality of undergraduate teachers is one key factor. It is recommended that: (i) a specific training program for accounting professors and lecturers be developed and implemented; and (ii) A professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Security and Control of Fixed Assets
Security and control of Non-Current Assets are lacking in the existing Government accounting procedures. The new Asset Recording System would most likely be satisfactory as regards to format and detail, however staff need to be urgently trained on the use of the software in order to make the system operative. It is recommended that: (i) the software for the Asset Recording System be reviewed in order to assess its adequacy and to determine whether a more suitable package may exist in today's market; (ii) If it is decided to continue with the existing software package the staff should receive proper training on the use of the software; and (iii) a monthly report be prepared by National Treasury Department on the capital expenditure incurred and that this report be used as the basis for updating the Assets Register.

The Draft Capital Market Law
There is presently a lack of a coherent code of Company Law in Cambodia with the result that it has been considered necessary to include within the draft Capital Market Law a number of articles covering those aspects of Company Law essential to the formation and ongoing regulation of public companies. The current draft Capital Market Law falls short of many topics that should be covered in a law related to companies. It is recommended that: (i) the current draft Capital Market Law and the draft Law of Commercial Enterprises be reviewed and replaced by a comprehensive Law on Companies and at the appropriate time a further law be drafted regarding the establishment of a Securities and Exchange Commission and a Stock Exchange; and (ii) technical assistance be provided to undertake these tasks.
Public Accounts Committee

Under Cambodian laws and regulations there appears to be no independent body, which is separate from the Government, which carries out an independent review of all public expenditures incurred by Government Ministries, agencies and enterprises. **It is recommended that:** (i) a Public Accounts Committee be established and be comprised of members from the National Assembly. The PAC should be established by law and the objectives, rules and procedures should be transparent and in the interests of the general public; and (ii) the appropriate technical assistance be granted to assist in drafting the necessary laws and regulations.

Public Sector Accounting Standards Board

The International Federation of Accountants has released the first eight International Public Sector Accounting Standards (IPSASs) designed to enhance the accountability and financial management of governments worldwide. The release of these documents means that for the first time there is an authoritative set of independent financial reporting standards for governments. **It is recommended that:** (i) consideration be given to the setting up of a Cambodia Public Sector Accounting Standards Board in order to plan and establish the Cambodian Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards; and (ii) the Public Sector Accounting Standards issued by IFAC be used as a base to develop the Cambodian Public Sector Accounting Standards.

Establish Position of Accountant General

With the introduction of International Public Sector Accounting Standards, the MEF establishment needs to be reviewed in order that due recognition is given to developments in this area. There appears to be no senior officer within the MEF whose duties include the monitoring and review of accounting standards. **It is recommended that:** (i) consideration be given to the creation of a position entitled “Accountant General”. The duties of this position would ideally include the monitoring and review of International Public Sector Accounting Standards. Recommendations would come from this Officer regarding the adoption of Standards and these submissions would be made to the Public Sector Accounting Standards Board; and (ii) the functions and responsibilities of Public Accounts be included in the duties of the Accountant General.
Transparency
There is a lack of transparency with Government reporting. There is practically no interface with the public or the private business sector. There appears to be no financial reports that disclose information on how resources have been used and accounted for, nor does there appear to be any financial instructions on these matters. **It is recommended that:** all Government accounts of public expenditures and revenues be available for public information and that all statistical data, inventories of public property, Government rules and procedures, procurement policies, etc. be also classified as available for public information.

Financial Performance Indicators
In many countries, state-owned enterprises, in particular those that generate their own revenue, often include financial performance indicators as Notes to the Financial Statements. These financial performance indicators include Rate of Return, Self-Financing Ratio (Contribution to Capital Ratio) and Debt Equity Ratio. Cambodia does not prepare these indicators. **It is recommended that** consideration be given to the adoption of financial performance indicators as benchmarks for comparison purposes between financial periods in State-owned enterprises that generate their own income. If adopted, the indicators recommended are the Rate of Return, the Self-Financing Ratio and the Debt Equity Ratio; and further, that these indicators be included as Notes to the Financial Statements.

Budget Monitoring Process
There appears to be no transparent budget monitoring process where actual performance can be compared against planned performance on a regular basis. There needs to be a coordinated approach by line Ministries and provinces and institutions with the core budget departments of MEF in order that budgeted revenues and expenditures are monitored, at least on a monthly basis, so that planned targets may be met. **It is recommended that:** (i) the budget monitoring process be reviewed in order that adequate procedures are put in place to better attain planned targets of discrepancies; (ii) the functions and responsibilities of senior staff in line Ministries, provinces, agencies and institutions be reviewed; and (iii) the budget cycle be revised in order that the draft Budget is prepared by October each year.
ADB Anti-Corruption Policy

The ADB’s anticorruption policy centers on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration as part of the Bank’s broader work in governance and capacity building; (ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality of the Bank’s dialogue with its developing member countries (DMCs) on a range of governance issues, including corruption; and (iii) ensuring that the Bank’s projects and staff adhere to the highest ethical standards. In order to combat corruption in the public service the following matters should be considered: the establishment of a public accounts committee; improved accountability measures; detection and investigation of corruption; employment of professional accountants; and effective internal controls.

2. People’s Republic of China

Developments and Challenges

The PRC had public accounting firms and an accountancy profession before the introduction of central planning. The Soviet accounting system, which catered to the needs of central planning, was adopted in the 1950s. The system provided statistical information, and emphasized standardization and uniformity so that information could be compared across sectors and industries. Detailed instructions replaced professional judgment in the accounts-preparation process and public accounting firms and the accountancy profession were unnecessary.

The PRC’s 1979 decision to align accounting practices with the needs of a mixed-market economy posed a number of challenges. First, bookkeepers numbered in millions but there were no qualified Certified Public Accountants (CPAs), let alone a professional accounting body. Second, financial information on the performance and position of organizations was not publicly available. In any case, this information did not meet international standards nor did it cater to the needs of investors or lenders. Third, the users of financial information (investors and creditors) were unfamiliar with what they should demand from organizations. Fourth, financial information was not independently verified (audited) to international standards. Fifth, the entire legal framework was geared to central planning and specified exactly what information should be produced, how it should be produced, and to whom it should be provided. Finally, the regulatory entities that
generally exist in market economies to oversee financial disclosure practices, such as securities exchange commissions, did not exist.

Objectives and Responses
The PRC's continuing accounting reforms have three objectives. First, to standardize and rationalize financial reporting - this is expected to gradually improve the efficiency of business enterprises through associated improvements to financial management and control systems. Second, to transit from the Soviet accounting model to the western accounting model - the adoption of the western accounting model is expected to facilitate foreign direct investment in the PRC. Third, to gradually give business enterprises more discretion to design their own internal accounting and financial systems.

In the two decades since 1979, the PRC has made enormous strides in terms of developing an accounting infrastructure suitable to the needs of a market economy. The first accounting firm was established in 1981 as a subsidiary of a government organization - there are now around 4,800 accounting firms. In 1985, the first Accounting Law was enacted which set out accounting responsibilities and procedures for state-owned enterprises. The Chinese Institute of Certified Public Accountants (CICPA) was established in 1988 - it now has 135,000 members. The first IAS-based accounting standard was promulgated in 1992. In 1997, a vigorous 'Rectification Campaign' was conducted to improve professional practices and ethics - by the campaign's end in 1999, 12,700 individual CPAs and 580 CPA firms had been forced from the profession.

Accounting and Auditing in the People's Republic of China
The 'Chinese accounting system' is governed by the recently amended Accounting Law 1985, which sets out accounting arrangements, responsibilities and procedures. The Accounting Law 1985 serves as the 'constitution' for the school of accounting regulations and defines the accounting and reporting practices for all public and private sector organizations. Furthermore, 'Uniform Accounting Systems' and 'Accounting Standards for Businesses' determine accounting and financial reporting practices. The Uniform Accounting Systems prescribe charts of account, reporting formats and detailed accounting instructions. The 'Accounting Standards for Businesses' are based directly on IASs. All organizations use double-entry bookkeeping and
prepare balance sheets. In these respects, PRC government accounting is more advanced than most developed countries.

The Audit Law 1994 governs auditing in the PRC and defines the basic principles for government auditing supervision, government audit institutions and auditors, the responsibilities and powers of audit institutions, audit procedures, and the legal liability of auditors. The PRC had no independent audit institutions from 1949 until December 1982, when the National People's Congress adopted a resolution to establish an auditing system in the PRC. Because of this resolution, the China National Audit Office (CNAO) was established in September 1983. The Auditor General who is a member of the State Council heads the CNAO. The CNAO audits public sector organizations (including many State-owned enterprises). It is also responsible for leading, developing, and supervising the auditing profession – it does not conduct financial attest audits.

After a 30-year hiatus, the first public accounting firm was established in the PRC in 1981. Much has happened in the ensuing 20 years – the PRC now has a thriving CPA profession. In the past two years, domestic accounting firm mergers have been actively encouraged. With the removal of restrictions – firms were previously legally allowed to only cover a single specific region – a number of accounting firms have merged. The Big Five international accounting firms are all present in the PRC.

Professional Infrastructure
The Chinese Institute of Certified Public Accountants (CICPA) was established in 1988 and is now one of the world's largest professional accounting bodies, with around 135,000 individual members and 4,800 group members (CPA firms). While the Institute is nominally an independent organization, it is under the direct supervision and direction of the Ministry of Finance (major policies must be approved by the MOF). The Certified Public Accountants (CPA) Law 1993 governs its activities. Since 1991, aspiring CICPA members must have an approved accounting degree, pass a uniform CPA examination, and demonstrate appropriate practical experience to gain membership. Some 530,000 candidates sat the examination in 2000, making it one of the world's largest practising-certificate examinations. CICPA members must undertake Continuing Professional Education to remain a member.
Accounting and Auditing Standards
In the 1950s, the PRC adopted a highly centralized administrative system from the Soviet Union (uniform accounting systems). In the early 1990s, it was decided that a series of basic and specific accounting standards that would be consistent with international accounting practices and that would cater to Chinese realities should be developed. In 1992, the Ministry of Finance issued the first of the PRC’s new IAS-based accounting standards – Accounting Standards for Business Enterprises – No. 1 Fundamental Accounting Standards. A further ten standards have been issued since and more are on the drawing board. With the release of the first new accounting standard, the Ministry of Finance published a series of new uniform accounting systems for the major economic sectors. The Ministry of Finance is responsible for developing accounting standards but does so on advice from the China Accounting Standards Committee (CASC) which has seven members drawn from various backgrounds. With one exception, there are no significant differences between the PRC’s accounting standards and IASs. The significant difference involves the requirement to agree; divergences from regulations (to comply with relevant accounting standards), and provisions for damaged or obsolete inventories, with the relevant authorities.

In the past six years, CICPA has developed a series of Independent Auditing Standards for the private sector, which are consistent with International Standards on Auditing. The CNAO has issued 38 Government Auditing Standards – these are currently being reviewed with ADB assistance.

Education and Training
Before 1978, the teaching scheme for accounting was virtually a replica of the Soviet system. The accounting major was reintroduced into universities and colleges in 1978. A new accounting curriculum was introduced in the late 1980s – changes involved the introduction of core courses covering: accounting principles, intermediate financial accounting, advanced financial accounting, management accounting, cost accounting, financial management, and auditing. New textbooks were prepared and teaching materials were updated to reflect the new curriculum. Accounting academics recently examined accounting education and identified the following systemic weaknesses which, in the opinion of workshop attendees, are overstated: poorly-defined accounting education objectives, poor design of accounting majors, a
weak curriculum system that does not fully reflect the needs of a mixed-market economy, poor compilation of textbooks, and lack of teaching consistency.

The 500 higher-education institutions that offer accounting majors include 23 universities and colleges that provide specialized CPA-oriented education. These institutions produced 1,500 graduates in 1999. In addition, three more schools specializing in CPA education are to be opened in Beijing (National Accounting Institute), Shanghai (Shanghai Accounting Institute), and Guangdong in the next year. A rudimentary estimate, based on an average of ten teaching staff at each of the 500 institutions teaching undergraduate accounting, is that the PRC has about 5,000 accounting teachers (higher education). A ‘self-sponsored’ training approach is taken to their development. Accounting professors and lecturers do not however, receive formal training. For instance, the target-training group for the National Accounting Institute does not include accountancy professors and lecturers.

Government Budgeting and Accounting

While the PRC’s fiscal deficit has remained comparatively low in the past 20 years, there is increasing concern about public finance arrangements. These concerns center on the use of extra-budgetary funds (surtaxes, levies, and user charges accruing to government and administrative units) and the growing identification of public sector wastage and mismanagement. In recognition of these issues, the Ministry of Finance, with support from the United Nations Development Program (UNDP), the World Bank and the International Monetary Fund (IMF), is currently examining options for budgetary reform with the intention of designing a comprehensive program to overhaul the PRC’s budget procedures.

The aggregate budget is prepared on a cash basis – the Government also prepares a consolidated balance sheet, which includes information on the level and composition of debt. Individual budget units use modified cash accounting. Their reports include cash information, which is consolidated for aggregate budgeting and reporting requirements. Not-for-profit organizations (e.g., schools, kindergartens, hospitals) have recently moved from cash accounting to a modified form of accrual accounting. While there are no firm plans for government organizations to report in accordance with International Standards, a research study into the feasibility of developing accounting standards for
government organizations will be conducted as part of the World Bank-supported Accounting Reform Project.

**Donor Assistance**

The **ADB** is supporting broad governance activities through the technical assistance program. Directly relevant projects include:

- **TA No. 1483-PRC: Audit Administration of the PRC ($600,000: 1991–1995).** This TA improved the CNAO’s capacity to audit externally assisted projects.

- **TA No. 3103-PRC: Strengthening the Government Audit System ($700,000: 1999–2001).** This TA is providing assistance to help strengthen the Government’s audit system to conform to the requirements of the Auditing Law 1994 and, as far as practicable, international standards on auditing.

- **Pipeline 2001: Strengthening the Accounting Profession ($600,000: 2001).** The recommendations from this study will be considered when the details of this TA are decided.

The **World Bank** has been the major provider of external assistance in relation to the development of accounting and auditing arrangements. Projects include:


- **Fiscal Technical Assistance Project ($50 million: 1995–2001).** Despite the 1995 starting date, very little was accomplished under this project until April 2000, with completion of a comprehensive Public Expenditure Management Review, by a World Bank team. A plan to reform and computerize government budgeting and accounting systems and procedures is currently being developed – the plan is drawing on the findings of the PEM, and will be implemented using the funding set aside in the Fiscal Technical Assistance Project.

- **Technical Assistance to the CNAO ($487,000: 1997–2000).** Technical assistance has been provided to the Foreign Funds Application Audit Department (FFAAD) of the CNAO to: establish a management information system that will enable the FFAAD to efficiently and accurately collect and distribute audit data among its nationwide network of offices; familiarize senior FFAAD management with the experiences of Supreme Audit Institutions in performance auditing; enhance the skills and knowledge of selected
senior FFAAD auditors in specialized areas of accounting and auditing practice with an emphasis on performance auditing, and establish a core training program to develop the knowledge and skills of auditors in areas of modern audit theory and practices.

- Accounting Reform and Development Project ($33 million: 1999–2004). This project is building upon the FSTA project - its objectives are to further strengthen the caliber and training of members of the accounting profession and to develop and promulgate additional accounting standards. The project has three components: (i) to establish the National Accounting Institute which will be a Beijing-located residential facility that can accommodate up to 1,500 students at one time; (ii) to strengthen CICPA through the provision of computers, software and other essential equipment; and (iii) to develop and disseminate further accounting standards.

The IMF and the UNDP are working together with the World Bank on public expenditure management and treasury management. AusAID (Australia) is supporting a five-year, $11 million, capacity-building program to help strengthen the public sector. The program has supported Australian training for nine middle-ranking managers from the CNAO on state-owned enterprises auditing. The suitability of computerized audit approaches was also investigated. A key output will be a Financial Statements Audit procedures manual for conducting audits of SOEs. Multimedia and information technology specialists have worked with CNAO who will produce highly interesting inter-active training material for CNAO's auditors conveying the content of this manual. Canadian International Development Agency (CIDA) has provided training support to the CNAO. The German Technical Assistance Agency (GTZ) is providing ongoing support to the CNAO, in particular, to the Continuing Education Centers.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in the PRC’s accounting and auditing arrangements.

Professional Supervision of CPA Firms (Quality Control)

CICPA is strengthening professional supervision through the: establishment of provincial supervision teams; development of reporting systems in the key finance, securities and insurance sectors; and experimental introduction of peer-review systems. They would like to enhance professional supervision and have requested for technical
assistance in this respect. **It is recommended that** a professional supervision improvement project be undertaken which 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 PRC that takes account of the country’s situation 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 competence and effectiveness of managers with supervisory responsibilities through training.

CPA Examination System Reform
Over 530,000 candidates sat the Uniform CPA Examination in 2000. CICPA is seeking technical assistance to address issues with management systems and examination procedures. **It is recommended that** a project be undertaken to improve the CPA examination system which would involve: (i) investigating design options for examination systems; (ii) establishing a database of examination questions; (iii) reviewing and reforming the grading system; (iv) examining the feasibility of, and options for, developing an on-line examination system; (v) developing suitable examination software, and (vi) implementing changes to management procedures.

Organization for Accountants (Non-CPAs)
CICPA represents CPAs. But, in addition to CPAs, the PRC has a further twelve million accountants. These accountants work in the public and private sectors. They gain their qualifications by passing the National Uniform Accountant (NUA) examination. These accountants have no professional organization. The establishment of a professional body for this group of accountants would provide a transitional route for aspiring CPAs. It would also raise the societal status of public sector accountants, and improve their knowledge and competence. **It is recommended that** a new professional body be established to represent accountants who are not in public practice.

National Uniform Accountant Examination
The vast majority of the PRC’s accountants qualify through the National Uniform Accountant Examination. There are around twelve million of these accountants. As with the Uniform CPA Examination, there are
major issues with the existing examination system. **It is recommended that** a project be undertaken to improve the National Uniform Accountant Examination system which would involve: (i) investigating design options for examination systems; (ii) establishing a database of examination questions; (iii) reviewing and reforming the grading system; (iv) examining the feasibility of, and options for, developing an on-line examination system; (v) developing suitable examination software, and (vi) implementing changes to management procedures.

China Institute of Internal Auditing: Certification

There is currently no specific internal auditor designation. This contributes to the lack of status of internal auditors in their resident organizations. The adoption of a China Institute of Internal Auditing (CIIA) certification would help to elevate the perceived value and prestige of internal auditors. Furthermore, the exposure of candidates to examination materials will facilitate the modernization and upgrading of internal-auditing practices. **It is recommended that** a project to develop CIIA certification and examinations be undertaken which would involve: (i) developing a PRC-specific qualification (certification) for internal auditors, and (ii) developing a PRC-specific examination system for internal auditors.

Development of CICPA Training Materials

While CICPA has been active in developing training materials, the rapidly changing environment combined with the dramatic increase in Institute members and examination candidates, are major challenges. Multi-media and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment and can easily be distributed to far-flung regions. CICPA has requested assistance to improve the development and delivery of training materials. **It is recommended that** a project to improve training materials for CPA continuing professional education be undertaken which would involve: (i) studying options for preparing and providing training materials to CPAs; (ii) developing a medium to long-term plan for developing continuing professional education; (iii) studying options for developing and delivering training materials using modern technology; (iv) developing training materials, and (v) reviewing the core course teaching materials at the 23 pilot colleges and universities that have established CPA programs. Furthermore, **It is recommended that** the CICPA: (vi) review existing interactive accounting training materials (such as those developed by
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New York Stern University in association with John Wiley and Sons);
(vii) study the CNAO’s experiences with the development of Multi-
media training materials (as supported by AusAID); (viii) study the
development of video-based training materials under the Accounting
Reform Project; and (ix) consider Internet-based provision of the
materials.

Plan for Strategic Development of the CPA Profession
To date, CICPA has dealt with issues in a competent, coordinated
fashion – at least to the extent that its operating environment allows. Its
challenge is to deal with future issues in a similar fashion. CICPA has
requested assistance to support the preparation of a medium to long-
term development plan for CICPA and the accountancy profession
which would encompass professional development goals, professional
administration, and administrative structures and systems. **It is recommended**
that a project to prepare a strategic plan for the
development of accounting profession be undertaken which would
involve: (i) researching the present situation of the Chinese CPA
profession; (ii) analyzing existing problems; (iii) examining and drawing
useful lessons from international experience in terms of the development
of the accountancy profession, and (iv) using this information and the
associated analyses to formulate a medium to long-term development
plan for CICPA and the accountancy profession.

CNAO Training and Capacity Building
The China National Audit Office (CNAO) is preparing a training
program with World Bank assistance to develop the knowledge and
skills of auditors in areas of modern audit theory and practices. In
addition, the Nanjing Training Institute has been established. It is
important that the training program be effectively implemented. Once
the program has been implemented, the CNAO should reevaluate its
training needs. **It is recommended** the CNAO develop an explicit
strategy for professional development that might include: (i) an analysis
of current staff competencies against current and future requirements;
(ii) an analysis of how well the core training program and other
initiatives, such as continuing professional development, are meeting
current and future needs; (iii) an assessment of the available options for
addressing gaps in professional development, including the resources
necessary for each option, and (iv) an integrated time-bound plan that
includes current professional development initiatives and new
professional development initiatives.
CNAO Computerized Audit Support Systems
The CNAO has been investigating the usage of computerized audit support systems – for instance, software that supports risk analyses, audit planning, working paper preparation, and computer assisted audit techniques (CAATs). But, the CNAO faces financial resource constraints in terms of procuring the necessary hardware and software and undertaking training. It is recommended that the CNAO collate the results of its research on computerized audit support systems and prepare a business case that includes an assessment of hardware, software and training requirements for consideration by the Government and other parties. The case should reflect the results of studies undertaken through ADB TA 3103-PRC.

China Institute of Internal Auditing: Standards
The Audit Law 1994 and the Accounting Law 1985 identify guiding principles, as well as the rights and responsibilities for internal auditors, but no detailed standards are provided which specify qualifications, competency, or the necessary due diligence processes and procedures that are required from internal auditors – training and education needs cannot be adequately determined without clear standards. It is recommended that the CIIA should develop: (i) a set of professional standards and guidelines and training materials to support their introduction; and (ii) Internal Auditing Standards, based upon International Internal Auditing Standards.

Training for Accounting Lecturers and Professors
The quality of undergraduate teachers is a key factor in developing competent accountants. A rudimentary estimate, based on an average of ten teaching staff at each of the 500 institutions teaching undergraduate accounting, is that the PRC has about 5,000 accounting teachers (higher education). However, the training target group for the National Accounting Institute does not include accountancy professors and lecturers. It is recommended that: (i) a specific training program for accounting professors and lecturers be developed and implemented; (ii) a professional organization for accounting academicians be established; and (iii) accounting professors and lecturers be included in the targeted training group for the National Accounting Institute.

Development of Public Sector Accounting Standards
While there are currently no firm plans for government organizations to report in accordance with the recently issued International Public Sector
Accounting Standards (IPSASs), the Accounting Reform Project, does include a component for a research study into this issue. **It is recommended that**, if the accounting reform project research supports the development of accounting standards for government organizations: (i) a project to implement public sector standards be developed; and (ii) a project to train government accountants in public sector standards be developed and implemented.

Conflicts between Accounting Standards and Regulations

The coexistence of accounting standards and the uniform accounting system regulations frequently confuses accountants and auditors. On one hand, the accounting standards require principles to be followed (for instance, that of prudence). On the other hand, the uniform accounting system regulations are extremely prescriptive. Moreover, the existence of regulated provisions significantly undermines the value of financial information. While these regulations may improve official statistics and enhance tax collections, they are not in line with internationally accepted accounting practices. **It is recommended that** laws and regulations be amended as necessary so that, where a conflict arises between regulations and the Accounting Standards, the Accounting Standard treatment overrides the regulated treatment.

CPA and CICPA Independence

The most important element among the fundamental ethical principles accepted by the international accounting profession is independence. However, most CICPA officials are Ministry of Finance employees and the organization works under the direct supervision of the Ministry of Finance. As such, CICPA is more a government organization than a professional body. But, in late July, the Ministry of Finance tentatively agreed that CICPA could be de-linked and re-established as an independent, professional organization. **It is recommended that** de-linking of CICPA from the MOF be pursued as a priority.

Accounting Standard-Setting Body

In the PRC, most observers agreed that accounting standard setting should be a government function on the basis that only the Government, has the required authority to enforce the implementation and monitoring of accounting standards. While this report concurs with the decision to initially assign standard-setting responsibilities to the Ministry of Finance, at this point, these arrangements should be seriously reconsidered – particularly in light the conflicts between
accounting standards and accounting regulations. **It is recommended that** the Ministry of Finance consider assigning accounting standard-setting responsibilities to an independent body that is comprised of financial sector representatives, financial sector regulators, and representatives from the accountancy profession.

### 3. Mongolia

**Challenges and Responses**

Mongolia had no accounting infrastructure before 1922 when it adopted the communist system. Mongolia developed its accounting systems in parallel with the Soviet Union throughout the 1920s and 1930s. The ‘Soviet accounting system’ catered to the needs of central planning – in particular, the system provided statistical information, including financial information. It emphasized standardization and uniformity so that information could be compared across sectors and industries. Detailed instructions negated the need for professional judgment in the accounts-preparation process. Consequently, public accounting firms and an accountancy profession were never necessary.

Mongolia’s rejection of communism in 1990 placed it in the same position as other Soviet Bloc countries concerning accounting arrangements. However, the Soviet accounting system created a sound basis on which to build. First, the system used many concepts of modern accounting including accrual measurement and double-entry bookkeeping. Second, large numbers of bookkeepers were trained in these concepts and were proficient in their application.

In the decade since the beginning of the transition, Mongolia has made reasonable progress in terms of developing an accounting infrastructure suitable to the needs of a market economy. In particular, a competent professional accountancy institute has been established, and, in broad terms, the legislative framework for the accountancy profession is sound.

**Accounting and Auditing in Mongolia**

The Ministry of Finance and Economy (MOFE) administers the Accounting Law 1993. This law regulates the maintenance of accounting records and the preparation of balance sheets by business entities and organizations in both the private and the public sectors. It also sets out financial reporting requirements, which require the Minister for Finance and Economy to approve standard accounting forms and methods for
in the regulation and organization of Mongolia’s accountancy profession: MICPA, MPAC, and the Accounting Division of the MOFE. The Accounting Law 1993 gave MPAC the authority to administer the professional accounting examinations that qualify accountants as CPAs. MPAC administered the inaugural CPA examinations in July 1993, but these examinations were prepared and graded by non-CPAs. The syllabus, on which candidates were examined, did not include auditing. So, those CPAs who qualified between 1993 and 1997 did so under low criteria. The Auditing Law 1997 tightened up the process for granting CPA titles and requires that accountants pass a three-stage examination. CPAs do not have to meet continuing professional education requirements to retain the title.

MICPA had 366 members as at 31 December 1999. Females and males are represented equally; 116 members worked in the public sector (Central Government, local government, and State enterprises), the other 250 worked in the private sector. Excluding honorary memberships (of which there are two), MICPA has only one membership category – that of CPA.

Accounting and Auditing Standards

Three organizations contribute to the development of private sector accounting standards: the Accounting Division of MOFE, MPAC, and MICPA. There is however, no formalized process for development, exposure, approval, and promulgation. Rather, drafts are circulated around selected organizations for comments.

Mongolian accounting standards are an integral part of a ‘uniform accounting system’ – based upon the former Soviet accounting system. In this respect, detailed accounting instructions and reporting formats are issued, of which accounting standards are an integral part. The accounting instructions also include taxation requirements. There are few differences between the ‘Mongolian Accounting System’ and IASs. The Fiscal Policy Department of MOFE has recently assumed responsibility for developing and promulgating accounting standards for public sector reporting. In 1998, as part of the Public Administration Reform Project, accounting policies were developed based on International Accounting Standards (IAS) and the (then unreleased) International Public Sector Accounting Standards (IPSAS).41

41 ADB TA No. 2931-MON: Program Preparation for Governance Reforms, for $967,000 approved December 1997.
The Auditing Law 1997 requires that auditors apply International Standards on Auditing (ISAs). Consequently, Mongolian auditing standards are a direct translation of ISAs.

Education and Training
Communism has left Mongolia with a legacy of high educational standards – particularly in the sciences – on which to build. Like many other countries in transition, Mongolia has a very large number of ‘accountants’. The MOFE estimates that there are 4,000 to 5,000 public sector accountants and around a further 30,000 private sector accountants. In reality, most of these accountants are bookkeepers and producers of statistical information. Mongolia has moved away from the Soviet educational model in the past 10 years. Before 1991, accountancy was not taught as a major in universities and colleges. Five state institutions now offer undergraduate and postgraduate programs in accountancy but, as these institutions are unable to meet demand, a number of private-sector accountancy training providers have emerged.

A recent United Nations Development Program (UNDP) study identified the following issues with respect to tertiary training:42 (i) Teaching aids – the blackboard is the prime teaching tool due to budgetary constraints; (ii) Textbooks – there is a shortage of Mongolian textbooks, in terms of both quantity and range. Moreover, the quality of these texts is poor in terms of translation and their application to the Mongolian environment; (iii) Staff development – the faculty members that were interviewed in the UNDP study acknowledged that their accounting knowledge and skills base could be improved, but financial constraints limited further study opportunities; (iv) Teaching methods – these focus on the traditional lecture approach. To an extent, this is due to accounting lecturers being paid based on hours taught. Not only does this compromise learning effectiveness but lecture hours are very high at the expense of tutorials and research; (v) Academic association – accountancy lecturers do not have an association; and (vi) Training for academics – accountancy lecturers do not receive targeted training.

Government Budgeting and Accounting
Mongolia’s public sector budgeting, accounting, and reporting arrangements represent a continuation of pre-transition central-
planning systems. They are based on the Soviet model of accounting that dictates prescriptive rules and requirements. The information provided meets the needs of central planning but does not provide the necessary information to support transparent, accountable or efficient government operations. State-owned enterprises (SOEs) and the Bank of Mongolia are required to prepare financial statements in accordance with IAS. Government organizations use modified accrual accounting – aggregate government reporting is on a cash basis.

In 1996 and 1997, the Government identified a number of problems with public sector arrangements. In response, a program was formulated to address problems with: strategy formulation and resource allocation; budget execution; role clarity; performance objectives; accountability for performance; accountability information; and inter-governmental accountability. In December 1999, ADB approved a $25 million program loan, along with three technical assistances, to support the governance reforms. The objectives of the Governance Reform Program are to: (i) enhance aggregate fiscal discipline; (ii) improve public sector's budget formulation and execution; (iii) strengthen public sector's operational efficiency; (iv) address social impact of the reforms and the financial needs under the Program; and (v) prepare the groundwork for continuation of the reforms. The overall goal of the program loan and the accompanying technical assistances is to lay the groundwork for enabling a successful implementation of the whole spectrum of reform of the public sector in its entirety, while at the same time, ensuring that the system which is implemented is consistent with that designed.

Donor Assistance
Three ADB program loans are directly related to supporting improved financial management and governance arrangements. First, the Financial Sector Program Loan I\(^43\) supported strengthening of the banking system, including the legal and regulatory framework. Second, the Financial Sector Program Loan II\(^44\) is intended to further strengthen governance arrangements in the sector, including further attention to legal and regulatory deficiencies. Finally, the Governance Reform Program loan is intended to support the Government’s intention to pilot administrative reforms, including the adoption of IAS-based accounting, in five

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\(^{43}\) Loan 1509-M O N: Financial Sector Program, for $35 million, approved on 16 December 1996.

\(^{44}\) Financial Sector Program II, for $15 million.
government agencies. Furthermore, directly relevant TA projects include:

- **TA No. 2390-MON**: Improving Accounting and Auditing Systems ($600,000: 1996–1997). The activities under this TA included: preparing a training manual for accountants; preparing an auditing manual; developing a draft audit law; assisting the establishment of a national accounting profession (e.g., articles of association, by-laws, and code of ethics); and developing and delivering a training program on financial accounting, managerial accounting, and accounts conversion. Additional courses on accounting information systems and auditing were also developed and delivered.

- **TA No. 2931-MON**: Program Preparation for Governance Reforms ($967,000: 1998–1999). This TA had three aspects: assisting the Government prepare the inputs for a possible program loan on governance reforms; assisting in the development, refinement and communication of draft legislation (the Public Sector Management and Finance Law); and supporting the groundwork for the implementation of the reforms arising from the enactment of the draft legislation. With respect to the third aspect, this involved developing accounting policies and accounting guidelines for the public sector based upon International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSASs). It also involved assisting five pilot agencies to prepare annual financial statements based on these financial policies.

- **TA No. 2964-MON**: Improving Accounting and Auditing Systems II ($688,000: 1997–1998). The activities under this TA included: preparing 34 accountants for international standard CPA examinations and conducting these examinations (18 candidates passed the examinations), providing accountancy textbooks in Russian and Mongolian, and assisting MICPA.

- **TA No. 3316-MON**: Initial Phase of Public Administration Reform ($700,000: 2000–2001). The broad objectives of this TA are to move five pilot agencies to output-based budgeting. As part of this process, accrual-based budgeting and reporting will be entrenched in five organizations.

The **World Bank** approved the Fiscal TA Project for $5 million in June 1998. The intention of this project is to support the development of an 45 Loan 1713-MON: Governance Reform Program, for $25 million, approved on 2 December 1999.
efficient and transparent government financial management system, and
the introduction of a value-added tax to strengthen the government’s
revenue base. The Fiscal TA Project will provide funding for:
computerized government financial management information systems
(including debt, cash, treasury management, whole-of-government
consolidation, and organizational accounting); training in management
development; training in accrual accounting, and budgeting; and
development of attest auditing capacity. An earlier project, the
Accounting Development Project, was implemented from July 1993 to
September 1994. The project had the following aspects: converting the
accounting systems of three State-owned enterprises to IAS; developing
a strategic plan for improving accounting and auditing system; updating
the accounting curricula for universities; and providing training in
financial and management accounting for accountants of major SOE and
tertiary institutions.

The **UNDP** is involved in financial governance issues through its
Program for Accountability and Transparency (PACT). The Accounting
Training Project ($76,000; 1999–2000) has involved the development and
delivery of a training program to finance staff in government
organizations (focusing on the requirements of the new public
administration system). The **IMF** has provided three Technical
Assistance on public expenditure management, although these TAs have
not directly involved accounting or auditing. **AusAID** (Australia) is
providing support to the State Audit Board in association with the ADB-
supported governance reform program. **JICA** (Japan) is supporting the
design and implementation of a Public Investment Program (PIP)
Budgeting Process in the Ministry of Finance and Economy through the
provision of consulting advice and training (1998–2001). **EU-Tacis**
(European Union) is supporting the Academy of Management (AOM) to
improve the effectiveness and efficiency of public administration
through provision of short- and long-term training of public
administrators. **GTZ** (Germany) is providing support to the State Audit
Board through a project titled Institutional Strengthening of the State Audit
Board (DM 3 million; 1998–2001). The Project aims to improve state
auditing (methodologies and technical skills) by providing equipment,
training and short-term experts. Its project involves training (seminars
and study tours) for staff from the SAB, MOFE and AOM.
Issues and Recommendations
This part presents the issues and recommendations that are associated with gaps or weaknesses in Mongolia's accounting and auditing arrangements.

Institutional Arrangements
Four key organizations are involved in the regulation and organization of Mongolian accounting and auditing arrangements: MICPA, MPAC, the Accounting Department of the MOFE and the Fiscal Policy Department of the MOF. Responsibilities overlap and role assignments undermine quality and effectiveness. For instance, institutional arrangements should support high certification standards for accountants and auditors. In Mongolia's case they do the opposite. It is recommended that: (i) International Accounting Standards be adopted directly, without any modifications; (ii) a statutory body, the Accounting Regulatory Board, be created to promulgate accounting standards; (iii) MPAC be disestablished and its CPA examination and auditor-licensing functions be assigned to MICPA; (iv) the requirement to license accounting trainers be eliminated; and (v) legislation be recast to reflect the above arrangements and to give MICPA legal status. This would ideally involve the amalgamation of the accounting and auditing laws.

Resource and Reference Materials
There have been a variety of initiatives to translate or develop resource and reference materials on accountancy and auditing over the past decade. However, many interviewees and workshop attendees questioned the quality and availability of these materials. In particular, several accounting textbooks have been translated into Mongolian. Furthermore, sets of model sectoral financial statements, such as those that have been developed by international accounting firms, would be extremely useful practical reference materials for accounting and auditing practitioners. It is recommended that a comprehensive review of Mongolian resource and reference materials should be conducted. The objectives of the review would be to: (i) identify all existing resource and reference materials, and (ii) review these materials for consistency, quality, and local applicability. It is also recommended that, following the review; the best of these materials should be selected and used as the basis on which to prepare excellent Mongolia-specific resource and reference materials. A particular emphasis should be
placed on the development of case studies and a series of model sectoral IAS-based financial statements.

Supervision of Bank Audits
The Banking Supervision Department of the Bank of Mongolia is responsible for licensing bank auditors and reviewing the financial statements of banks. The Department does not, however, have any qualified CPAs. Moreover, while staff recognise their shortcomings in this area, and are attempting to address them through self-study, there has been only one formal training initiative in International Accounting and Auditing Standards or on Reporting by Financial Institutions.\(^\text{46}\) It is recommended that (i) the Banking Supervision Department of the Bank of Mongolia recruit at least one qualified CPA to their ranks; and (ii) Personnel of the Banking Supervision Department of the Bank of Mongolia, together with bank accountants and finance directors, receive further training in International Accounting and Auditing Standards and Financial Reporting.

Public Education on Financial Information
The public education initiatives that are being supported by MICPA and USAID are worthy of attention. MICPA sponsors a limited public education campaign from its small budget. USAID supports the publication of newspapers and the development and broadcasting of television serials. It is recommended that: (i) public education initiatives on the nature and uses of financial information should be continued and broadened; and (ii) a short leaflet be prepared that describes; the purpose and methodology of audits, and what users should look for when reading financial statements.

Professional Supervision of CPA Firms
The Mongolian CPA profession is in its infancy and the quality of services provided by accounting firms ranges from poor to very good. The implementation of an effective professional supervision regime would lift standards and eliminate less competent firms from the market. \(\text{It is recommended that}\) a project to improve professional supervision be undertaken which 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.

\(^{46}\) TA No. 2964-MON: Improving Accounting and Auditing Systems II. For $688,000 approved December 1997.
(including peer-review regimes); (iii) designing a supervisory system for Mongolia that takes account of the country's situation and provides sufficient flexibility to deal with environmental changes; (iv) reviewing and, where necessary, revising CPA legal responsibilities and associated disciplinary regulations; (v) implementing the supervisory system and associated reporting systems, and (vi) improving the competence and effectiveness of managers with supervisory responsibilities through training.

Continuing Professional Education (CPE) for CPAs
MICPA is currently considering options for CPE requirements and delivery of CPE. They have requested assistance to develop the CPE system. It is recommended that a project to develop a sustainable Continuing Professional Education (CPE) System for CPAs be undertaken.

MICPA Membership Categories
MICPA has one individual membership category – that of the CPA. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria (e.g. Accounting Technician). It is recommended that MICPA should: (i) establish subsidiary membership categories – at least for accounting technicians; and (ii) establish a new category of membership for public-sector accountants and develop appropriate entry criteria.

Countryside Training
The MOFE and MICPA estimate that there are around 18,000 'accountants' (bookkeepers) in the countryside (i.e., outside Ulaanbaatar). This group has received limited training in modern accounting and financial management. It is recommended that: (i) A project be developed to train a selection of countryside accountants in modern accounting and financial management; (ii) 100 accountants be trained in each of the 21 Aimag (provinces); (iii) the training be practical in that it involve the conversion of two enterprises in each Aimag to International Accounting Standards; and (iv) the exercise then be extended to the remaining 'accountants' and enterprises in each Aimag. This would involve the trained accountants working with a central team.
Training for Accounting Lecturers and Professors
A model tertiary accountancy curriculum has been developed with ADB assistance and has been adopted by tertiary institutions. The curriculum reflects the three major components of an acceptable degree program, and includes semester-by-semester listings of courses – including the academic units for each semester. To this end, accounting lecturers and trainers recently held a conference to discuss progress in introducing the uniform curriculum. It is recommended that: (i) a specific training program for accounting professors and lecturers (train the trainers) be developed and implemented, and (ii) a professional organization be established for accounting academics.

Improving Audit Quality through Legislative Changes
Mongolian legislation requires that annual financial statements be prepared and audited within extremely short timeframes (41 days), which undermines the status of auditing and devalues the role of the independent audit. It is recommended that legislation be amended: to either completely remove the requirement for quarterly certifications of financial statements; or to define the quarterly certification process as being a limited numerical review which does not constitute an audit, and to increase the allowable timeframe for submission of “certified” financial statements from 20 days following the end of the quarter, to at least 60 days following the end of the quarter. It is also recommended that: (i) the Accounting Law 1993 be amended to allow alternative balance dates for financial reporting (other than 31 December); and (ii) the Auditing Law 1997 be amended to increase the allowable timeframe for annual audits from 10 February (41 days following balance date), to at least 120 days following balance date.

Recognition of Public Sector Accounting Policies
A comprehensive set of public sector accounting policies has been developed as part of the ADB-supported Governance Reform Program. These accounting policies are consistent with International Public Sector Accounting Standards (IPSASs) and IAS. Moreover, they have been successfully applied to the financial statements of five pilot agencies. The MOFE does not recognise these accounting policies. It is recommended that the Fiscal Policy Department of the MOFE officially

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47 TA No. 2964-MON: Improving Accounting and Auditing Systems II. For $688,000 approved December 1997.
4. Pakistan

Developments
Since Pakistan gained independence in 1947, the Republic has been under military rule for 50 percent of the time. The current government is headed by a military regime, which came into power on 12 Oct 1999. The Constitution was promulgated in 1973 and includes articles covering the Annual Budget, Federal Consolidated Fund and the appointment and duties of the Auditor-General.

In 1951 the Institute of Cost and Management Accountants was formed and legally established in 1966. In 1961 the Institute of Chartered Accountants of Pakistan was legally established. In 1984 the Pakistan Institute of Public Finance Accountants of Pakistan was legally established under the Companies Act. The accounting profession in Pakistan is strong and accounting and auditing standards are well established and based on International Accounting Standards (IAS).

Accounting and Auditing in Pakistan
The Government accounting system in Pakistan is governed by the Pakistan (Audit and Accounts) Order 1973 that requires submission by the Auditor-General of a General Financial Statement incorporating a summary based on the Consolidated Fund and the Public Accounts. The Auditor-General is responsible for both accounting and auditing in Pakistan, however a committee has been established to review this situation.

In the private sector, the Companies Ordinance 1984 requires that account books be kept and details the financial reporting requirements of listed companies and unlisted companies. The Act also contains details of audit requirements. Mandatory application of each International Accounting Standards (IAS) is also prescribed by issue of Special Regulatory Orders issued by the Securities and Exchange Commission.

The accounting basis of the public sector is cash and the private sector uses full accrual. The Auditor General is responsible for auditing and accounting and is a member of the International Organization of Supreme Audit Institutions (INTOSAI). All international big five accounting firms are represented and most have Pakistan citizens as their principals.
Professional Infrastructure
Three accounting organizations exist in Pakistan. These organizations are established legally and they are all members of the International Federation of Accountants (IFAC).

The Institute of Chartered Accountants of Pakistan (ICAP) has 2,400 members and is governed by a Council, through the Standing Committee, and other Committees. Members must pass pre-entry proficiency tests and foundation examinations.

The Institute of Cost and Management Accountants of Pakistan (ICMA) has over 1,400 qualified members. It instigated an active training program four years ago, and there are now 23,000 registered students. ICMA is governed by a Council, through the Steering Committee, and other Committees. Members must have a degree or equivalent, for entry.

The Pakistan Institute of Public Finance Accountants (PIPFA) has 1,450 members who are mainly public servants. The PIPFA was formed to produce a second tier of professionals. It is governed by a Board of Governors, through the Standing Committee and other Committees. The prerequisite entry is intermediate examination from a recognized education board, university or institution.

Accounting and Auditing Standards
The ICAP plays the major role in setting accounting and auditing standards. ICAP publishes Exposure Drafts and receives members’ comments. ICAP then recommends acceptance of the IAS to the Securities and Exchange Commission and, if in agreement, a Special Regulatory Order is issued under S 234 (3) of the Companies Ordinance and all listed companies must comply with this Order. Almost all International Standards have been adopted in full. Public Sector Accounting Standards have not yet been considered for adoption.

Education and Training
There are 56 universities in Pakistan, the majority of which offer business and accounting degree courses. Public Sector training is mainly undertaken at the Audit and Accounts Training Institute in Lahore. Public Sector pre-service training is a requirement for all new entrants. ICAP and PIPFA training is available at private colleges and ICMA training is available at the Institute's colleges. ICAP training is based on Pre-entry Proficiency Test, then two years Full-time Foundation Course, then four years training with Chartered Accountants, during which time two stages of the professional exams must be passed to become an
associate member. ICMA training at its own colleges is based on passing Foundation and Professional exams and completing three years practical training before becoming a member. PIPFA training is in three stages – Foundation, Intermediate and Final. PIPFA courses are aimed at government accounting and students must complete two years practical training before becoming a member.

Government Budgeting and Accounting
The Constitution contains articles covering the National Budget and National Government Accounts. The Government Accounts are in two parts – Consolidated Fund and Public Accounts. The annual accounts are designed to present all Government accounts on a common and comparable basis. A “Balance Sheet” is prepared, however, the figures do not contain totals of all assets. An Audit Certificate is issued.

Under the Project for Improvement to Financial Reporting and Auditing (PIFRA), the Consolidated Fund and Public Account are maintained. A Modified Cash System is introduced then full accrual is recommended. A Physical and Financial Assets Register is also recommended. Budgeting is compiled in order to be consistent with the Chart of Accounts. Spending ministries are responsible for their own budgets and the coordination of the Budget is the responsibility of the Ministry of Finance.

Donor Assistance
The Project for Improvement to Financial Reporting and Auditing (PIFRA) is sponsored by the World Bank ($28.8 million). The highlights are:

- Studies commenced in early 1990s and the project commenced in 1997.
- The Project has two parts – To improve public sector accounting systems and to provide the basis for enhancing public sector accountability.
- The Project includes provision of consultancy assistance to design and implement a core accounting and reporting system for financial reports and budgets. Consultants are currently being sought for these activities.
- Various manuals and a Chart of Accounts have been distributed for comment.

PIFRA does not cover the Private Sector Accounting Infrastructure and Accounting and Auditing Standards.
Issues and Recommendations
This part presents the issues and recommendations that are associated with gaps or weaknesses in Pakistan's accounting and auditing arrangements.

Islamabad Accounts and Audit Academy
The accounting and auditing training conducted at the Accounts and Audit Training Institutes at Lahore and the regions appears to be well documented and adequate for internal courses within the Government. The Institute's Headquarters was established in 1973 and now there is a problem of accommodation and facilities. Land is available at Islamabad for the construction of a new accounts and audit academy. It is recommended that assistance be provided to the Government of Pakistan for the construction of an Accounts and Audit Academy at Islamabad and further, that technical assistance be provided for the purchase of equipment and training aids necessary to establish the Academy. It is also recommended that, once the Academy is established, assistance be sought to cover the development of course material and expert review of course content.

Accounting Training
The professional courses of ICAP, ICMA and AAT are comprehensive and appear to be adequate for each organization. It may be that further attention needs to be directed to Information Technology Courses and it may be appropriate to have an expert in this field review the syllabi of each course. It is also understood that the training institutions require assistance with the acquisition of teaching aids and equipment especially in the computerization field. The enhancement of trained teaching staff to deliver the lectures and tuition at various accounting training institutions by the introduction of train-the-trainer courses would be an advantage. It is recommended that a Joint Committee of the three organizations be formed to review the following: (i) the current and future needs in relation to training aids and equipment at the various training institutions; (ii) the current and future requirements for professional and competent trainers in the field of accounting teaching and tuition; and (iii) that an expert in the field of IT be engaged to review the course content of ICAP, ICMA and AAT syllabi.

Training for Accounting Lecturers and Professors
There is no specific training program for continuing education of accounting lecturers and professors in Pakistan. Many factors support
the development of competent accountants. The quality of undergraduate teachers is a key factor. **It is recommended that**: (i) a specific training program for accounting professors and lecturers be developed and implemented; and (ii) a professional organisation be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Security and Control of Non-Current Assets

Security and control of Non-current Assets are lacking in the existing government accounting procedures. It has been recommended that PIFRA accounting implementation should commence at the beginning of a financial year and this is likely to occur on the 1st July 2002 or later. A physical stock-take needs to be carried out, and all assets taken up preferably before PIFRA is implemented. **It is recommended that** the Government of Pakistan consider the undertaking of a total stock-take of all Government Non-current Assets, over a period to be determined by the Government, in order to facilitate proper recording, monitoring, security and financial control of these assets. Should the Government decide to undertake this stock-take **it is recommended that** technical assistance be provided for this purpose. It is also recommended that the Government should consider the application of full accrual basis of accounting before the end of the completion of this stock-take.

Review of Commercial Laws

The last time the Laws of Pakistan were consolidated was in 1966 with the issue of 16 volumes under the Pakistan Code. The Laws of Pakistan again need to be reviewed and consolidated for ease of reference by professionals and other users. In many cases, titles have changed and cross-references are either incorrect or out of date. **It is recommended that** the commercial laws of Pakistan be reviewed and amended to reflect best present day practices after taking account of local requirements and ideologies and that technical assistance be provided for this purpose. It is further recommended that the laws of Pakistan be administratively reviewed and up-dated and consolidated for ease of reference.

A amalgamation of Accounting Bodies

The three National Accounting Bodies appear to have a good working relationship and liaison with each other. This is evidenced by the fact that ICAP and ICM A jointly sponsored the establishment of AAT with
the Auditor General and the three organizations each have representatives on various committees. **It is recommended that** amalgamation of IPAC, ICMA and AAT be considered by the Governing Councils of the three organizations and, if considered appropriate, a Steering Committee be formed consisting of an equal number of members from the three accounting bodies to study and report on the feasibility of amalgamation. At this stage, if the Governing Councils viewed amalgamation as a feasible option, the matter should then be put to the vote of all members concerned.

**Public Relations - National Accounting Bodies**

The Government is attempting to broaden its tax net through the medium of a national survey and it is at the lower end of the business scale that most attention is being directed. The Chamber of Commerce has advised that there are many small traders and businesspeople that simply do not know where to begin in order to meet their tax liabilities. **It is recommended that** the accounting profession mount a public relations campaign, directed mainly at the small businesspeople, and advise the public of the professional services available. If implemented this scheme would assist the Government to broaden its tax net and enhance the image of the profession at the lower end of the business scale.

**Independent Pakistan Accounting Standards Board**

When application is made by ICAP to SEC to issue an order for the implementation of an IAS, the SEC undertakes a review before issuing the order. The SEC has qualified accountants on its Board of Commissioners and it seems appropriate that the SEC should be considered as the vehicle to establish an independent Accounting Standards Board. It is understood that a form of Accounting Standards Board may have existed at the same time as the Corporate Law Authority, which was superseded by the SEC with the enactment of the Act in 1997. **It is recommended that** a Steering Committee be formed consisting of members of the corporate sector, ICAP, ICMA and the AGP to review and report on the establishment of an independent Pakistan Accounting Standards Board.

**Public Sector Accounting Standards Board**

The establishment of the Pakistan Consortium of Governmental Financial Management represents a serious attempt to upgrade the quality and standard of accounting and auditing practices in the Public
Sector, including Government Owned Enterprises. It seems appropriate for the Consortium to play a major role in the establishment of a Public Sector Accounting Standards Committee. **It is recommended that** the Pakistan Consortium on Governmental Financial Management should consider: (i) the legal establishment and promotion of a Public Sector Accounting Standards Board; and (ii) the establishment of an independent Secretariat.

Pakistan Public Sector Accounting Standards
The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and ED 9 refers to Financial Reporting under the Cash Basis of Accounting. Since Public Sector Accounting has now gathered momentum on an international basis, it is convenient to introduce appropriate training to cover this subject. Universities and colleges should be encouraged to include this subject in their curricula. **It is recommended that** the Pakistan Government establish the Pakistan Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC.

Application of IAS for Unlisted Companies
The Companies Ordinance 1984 requires that listed companies must comply with International Accounting Standards as directed by the SEC. In the course of their audit, the auditors encourage all companies to comply with International Accounting Standards, including the unlisted organizations as well as the listed. If compliance is mandatory for the listed companies there appears to be justification in making it mandatory for unlisted companies especially if the companies have a large asset base or paid-up capital. **It is recommended that** the procedures adopted for directing mandatory compliance with International Accounting Standards for listed companies should also be applicable to unlisted companies, where the paid-up capital or the asset base is in excess of Rs. 50 million.

Public Accounts Committees
It is understood that the provincial PACs have met on very few occasions in recent years and subsequently the examination of the accounts of the provinces is up to fifteen years overdue. The provincial PACs should be constituted under a higher authority and the powers,
functions, rules and procedures regularized in order that the provincial PACs have the confidence of the public and that they are performing their main function as the nations overseer of the use of public funds. It is recommended that the duties and responsibilities of provincial PACs be legally constituted and that the provincial PACs are required to meet on a more regular basis as prescribed in that legislation.

Establishment of Internal Audit Function

Government Ministries/Departments do not have an internal audit function within their organizations. Auditing is left to the Auditor Generals Department, which is mainly involved in compliance with procedures, accuracy of calculations, audit investigations as a result of special requests, and performance audits. There appears to be no formal procedures to ensure that effective internal control and risk management are being considered at department level. It is recommended that the establishment of an internal audit function be considered for implementation in certain Government Departments/Ministries. The audit function should include internal control and risk management functions.

Joining the Institute of Internal Auditors

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association and is the acknowledged leader in research, education, technology and certification and risk management for the profession worldwide. At this stage of development, it is appropriate for Pakistan to consider joining the international professional auditing association and establishing the Institute of Internal Auditors Pakistan (IIAP). The IIA issues standards by which the operations of an internal auditing department can be evaluated. The standards are the same for private business and governments. It is recommended that Pakistan join the Institute of Internal Auditors by forming its own national institute and that a steering committee consisting of the three national accounting bodies and the Auditor General’s Department be formed to evaluate this recommendation and, if agreed, establish the Institute of Internal Auditors Pakistan.

ADB Anti-Corruption Policy

The ADB’s anti-corruption policy centers on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration; (ii) supporting promising anticorruption efforts on a case-to-case basis and improving the quality
of the Bank’s dialogue with its developing member countries on a range of governance issues, including corruption; and (iii) ensuring that the Bank’s projects and staff adhere to the highest ethical standards. In order to combat corruption in the public service the following matters should be considered: improving accountability measures, detection and investigation of corruption, employment of professional accountants; and effective internal controls.

5. Papua New Guinea

Developments and Challenges
Generally, accounting was introduced into Papua New Guinea after World War II. During the 1950s the users of accounting systems were plantations, large trading companies, the PNG Administration, and the Australian Administration. In the 1960s, mining companies and local businesses became more prominent and universities and colleges commenced operations in Port Moresby and Lae, although accounting degree programs were not available until the late 1970s. Self-government was established in 1973, the PNG Institute of Accountants Inc. commenced in 1974 and Papua New Guinea gained its independence in 1975. The problems with the accounting profession at that time were centered on the following:

- No PNG accountants;
- No accounting degree programs;
- No regulatory agencies; and
- Heavy reliance on foreigners.

Objectives and Responses
The immediate objectives at independence were to upgrade the accounting profession, train PNG citizens to become accountants, adopt standards for accounting and auditing and introduce regulations and registration procedures. In response to these requirements the following important laws were passed: Public Finance Management Act 1985; Audit Act 1989; Public Finance Management Act (Amended) 1995; Accountants Act 1996; New Companies Act 1997; and Securities Act 1997.
Accounting and Auditing in PNG

The accounting system in Papua New Guinea is governed by the Accountants Act (1996) which established the Accountants Registration Board and the PNG Institute of Accountants (PNGIA); and the Companies Act (1997) which established the principles for Financial Statements Reporting and Annual Reports and also established the Accounting Standards Board (ASB). The ASB approves International Accounting Standards (IASs), International Standards on Auditing (ISAs) and PNG Accounting Standards, based on recommendations from the PNGIA.

The PNG Government uses a cash basis of accounting and the private sector and Government Statutory Authorities use accrual accounting based on IASs.

The audit practice in the public sector is governed by the Audit Act. The Act established the Office of the Auditor-General (AG). The AG is not subject to ministerial direction and reports directly to Parliament.

There are 31 accounting and auditing firms in Papua New Guinea, including three from the international "big five," the other two are represented by other firms in PNG. The Companies Act 1997 details the provisions relating to the appointment, qualifications, responsibilities, and duties of auditors in relation to the private sector.

Professional Infrastructure

The PNGIA Inc. was originally established under the Companies Act in 1974 and is now established under the Accountants Act (1996). The Institute has 1,500 members, both citizen and non-citizen. A development program was introduced in the mid-1990s and professional examinations introduced. Registered graduates need a pass in the Competency exam to become an Accounting Technician, then passes in seven core subjects to become an Associate. Special experience and at least 10 years’ membership are required to become a Fellow. Forty hours per year of Continuing Professional Education (CPE) are required – 20 hours structured and 20 hours unstructured.

The National Council is the main governing body and manages the affairs of PNGIA through the Executive Committee and various subcommittees. A branch of the Australian Society of Certified Public Accountants (CPAs), with 180 members, also exists in PNG.

Accounting and Auditing Standards

International Accounting Standards have been adopted in PNG without alteration to the Standards. Problems exist with the application of these
Standards in some local audit firms and businesses. Papua New Guinea Accounting Standards have been adopted for PNGAS 3 “Accounting for Plantations” and PNGAS 4 “Reporting Currency.” International Standards on Auditing have been adopted, using International Federation of Accountants (IFAC) Standards for the private sector.

International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government field audits have been adopted by the Auditor-General. International Public Sector Accounting Standards have not been considered for adoption in PNG at this stage.

Education and Training
Bookkeeping and computerization are taught in primary and high schools and community schools. Full-time Accounting Diploma and Degree courses are covered at universities and colleges, however no Masters Degree courses are available in PNG. The curricula of degree courses are based on IAS.

There are two State-owned universities and four State-owned colleges. Two universities and four colleges are also owned by private sector interests. Accounting students currently number 1,800 with approximately 4,000 qualified graduates, of which 1,500 belong to the PNGIA. Papua New Guinea needs approximately another 2,000 accountants; 50 percent in the public sector and 50 percent in the private sector. There is very little accounting training provided by the Department of Finance and Treasury and some audit training is provided by the Auditor-General’s Department.

Government Budgeting and Accounting
The PNG Constitution contains articles covering financial matters such as taxation, loan raising, public accounts, national budget and audit. The Public Finance Management Act (1995) details procedures relating to the Consolidated Revenue Fund and the Trust Fund, and is the legislative authority for the management of these funds.

The Public Finance Management Act defines the National Budget and allows for transfers between appropriations. The Act also allows for the issue of Finance Regulations and Instructions. There is a Centralized Budget System in place and no centralized Asset Management and Control System. There are five Information Technology systems in place. The Public Accounts Committee has not met for at least three years although the Constitutional office holders have been appointed.
Donor Assistance
The ADB-sponsored Financial Management Project (FMP) (PNG 30535) covers the strengthening of public sector financial management. The FMP also assisted the Year 2000 Information Technology Remedial Program. Under the Government’s Financial Management Improvement Program a strategic framework was developed covering:
- Implementation Plan and Terms of Reference for Consultants;
- Details of Operational Strategies;
- Details of Information System Packages;
- Details of Human Resources and Training Strategies;
- Chart of Accounts; and
- Details of Existing Financial Management.
The World Bank and ADB-supported Government Structural Reform Program is designed to improve fiscal management and governance.

Issues and Recommendations
This part presents the issues and recommendations that are associated with gaps or weaknesses in Papua New Guinea's accounting and auditing arrangements.

Enhancement of Public Sector Training
The first eight IPSAS issued by IFAC are all based on accrual accounting. ED No. 9 refers to Financial Reporting under the Cash Basis of Accounting. Public Sector Accounting has now gathered momentum and it is now appropriate to keep pace with developments by increasing the training effort in PNG. It is recommended that:
- (i) Public Sector Accounting be included in the curriculum of accountancy training institutions;
- (ii) PNGIA add a separate status of Public Sector Accountant;
- (iii) PNGIA add a further PS module to their professional exams; and
- (iii) appropriate Technical Assistance be considered to establish the modules.

Upgrading of Accounting Facilities at Training Institutions
All accounting training institutions need additional accounting facilities and equipment including modern accounting books for their libraries. Funds are also required for the following institutions to develop separate buildings for their School of Business Studies: University of PNG; Pacific Adventist University and Divine Word University; and School of International Business Studies. In order to meet the acute shortage of training facilities for business, accounting, and computing courses in
PNG, it is recommended that funding assistance be sought for the above equipment and facilities.

Training Program for Lecturers and Professors
There is no specific advanced training program for the continuing education of accounting lecturers and professors in PNG. Many factors support the development of competent accountants. The quality of undergraduate teachers is a key factor in developing these competent accountants. It is recommended that (i) A specific training program for accounting professors and lecturers be developed and implemented; and (ii) a professional organisation be established so that professors and lecturers may further their education and share their technical knowledge through a common forum.

Forensic Audit - Auditor-General’s Office
The Auditor General of PNG confirmed that fighting corruption within the Public Service was high on the Government’s agenda. The Auditor General has requested the ADB’s assistance in establishing a Forensic Audit Unit within his Department. Some of the Auditor General’s staff have recently been trained in the ADB assisted Instructor Training Program conducted by ASOSAI and SPASAI and it is intended to use these people to set up the Unit. It is recommended that technical assistance be provided to the PNG Government to assist in the establishment of a Forensic Audit Unit within the Department of the AG.

Establish a Public Sector Accounting Standards Board
International importance is now being actively directed towards the issue of accounting standards for the public sector and it is appropriate that Papua New Guinea should keep pace with developments. It is recommended that: (i) consideration be given to the setting up of a PNG Public Sector Accounting Standards Board in order to plan and establish the PNG Public Sector Accounting Standards, and to organize and monitor their implementation; and (ii) the Public Sector Accounting Standards issued by IFAC be used as a base to develop the PNG Public Sector Accounting Standards.

Establish Position of Accountant General
With the introduction of International Public Sector Accounting Standards, the DFT establishment needs to be reviewed in order that due recognition is given to developments in this area. It is
**Situation, Issues and Recommendations: Papua New Guinea**

**Recommended that** (i) the position of "Accountant General" be created. The duties of this position would include the monitoring and review of International Public Sector Accounting Standards; and (ii) the functions and responsibilities of the Public Accounts Division be included in the duties of the Accountant General.

**Review of Accountants Act**
The PNGIA have advised that although the Accountants Act was only promulgated in 1996 it is in urgent need of review. One of the major problems refers to accountants in employment under Section 67 of the Act. The strict interpretation of the Act discloses that there are many employees and employers, including the PNG Government, who are acting illegally under the Accountants Act and this situation needs to be corrected urgently. **It is recommended that** the Accountants Act be urgently reviewed and that the sections dealing with Accountants in Employment be immediately addressed.

**Public Accounts Committee Activity**
It is understood that the Public Accounts Committee has not held a public hearing for at least three years although the Committee has been constituted. In previous years the PAC met on a regular basis and instilled public confidence in the Government system of examination and questioning of the actions of public officials. **It is recommended that**, in accordance with Articles 118 and 214 of the Constitution, The Public Accounts Committee be required to meet on a regular basis in open public hearings.

**ADB Anti-Corruption Policy**
In order to combat corruption in the public service the following matters **should be considered**: improved accountability measures; detection and investigation of corruption; employment of professional accountants; and effective internal controls.
6. Uzbekistan

Developments and Challenges
Accounting in the former Soviet Union (FSU), which included Uzbekistan, catered to the needs of statistical and tax authorities. It consisted of adhering to a prescribed chart of accounts that was designed to meet the requirements of the central planning system. The primary function of accounting was to record the factual data necessary to assess plan accomplishments, rather than to assess an enterprise's financial situation. The focus of Soviet accounting was more on bookkeeping than on the process of accounting. In fact, they were considered the same thing. Consequently, public accounting firms and an accountancy profession were never necessary. In fact, accountancy had a very poor reputation in the FSU. One study ranked accountancy at 91st place in terms of prestige on a list of 92 professional occupations.\(^49\)

On independence from the Soviet Union in 1991, Uzbekistan took a gradual approach to market reforms. These reforms included making accounting and financial reporting practices and arrangements consistent with the needs of a market economy.

Objectives and Responses

In the decade since the beginning of the transition, Uzbekistan has made progress in terms of developing an accounting infrastructure suitable to the needs of a market economy. In 1992, a working group, led by the Ministry of Finance (MOF), was organized to draft new legislation. Work was conducted from January 1994 until December 1995 in which time the working group produced: a draft accounting law, including formats for financial statements; a production-cost regulation and associated materials; a revised chart of accounts; a draft auditing law; recommendations for a standard on foreign currency translation during periods of inflation; and preliminary recommendations for the strengthening of the accounting profession.

In contrast to other FSU countries, Uzbekistan realized that, for accounting reform to succeed, it would be necessary to separate financial accounting from tax accounting to prevent tax rules from distorting financial information. The Production Cost Regulation (PCR), in simple terms, guided accountants in how to prepare income statements. The

PCR was a key element in the Uzbekistan accounting reforms; this has been belatedly recognized by other FSU countries, which in the past couple of years, have begun to examine Uzbekistan’s experiences in this respect.

Uzbekistan’s first professional accountancy body, the Association of Accountants and Auditors (AAA) was established in 1992 and, in 1993, the UNDP/EU-TACIS-supported Accounting Reform Project began. One of this project’s objectives was to provide accountancy and auditing training to over 100,000 ‘accountants.’ The enactment of the Accounting Law in 1996 enshrined general accounting principles, the roles and responsibilities of entities, accounting practices, and financial reporting requirements, in law. Notably, the Accounting Law 1996 applies equally to public and private sector organizations. The first set of IAS-based National Accounting Standards (NASs) was promulgated in 1998. In 2000, the Auditing Law has tightened auditor-certification procedures and clarified the roles and responsibilities of auditors.

Accounting and Auditing in Uzbekistan
The Accounting Law 1996, the provisions of which came into force on 1 January 1997, governs the ‘Uzbekistan accounting system’. In 1999, the Cabinet of Ministers decreed that the Chart of Accounts should be updated so that it aligned with the new National Accounting Standards (NASs) that were based on International Accounting Standards (IASs).\footnote{Decree of the Cabinet of Ministers (No. 54). 5 February 1999.} The new Chart of Accounts and Instructions were developed as a coordinated effort between the MOF and USAID consultants. They were approved, and were registered with the Ministry of Justice on 1 June 2000, as National Accounting Standard 21. Around 80 regulatory documents must be amended before the new Chart of Accounts comes into effect on 1 January 2002. In addition to the new Chart of Accounts and NAS, the MOF developed new forms of financial statements, initial documentation, order-journals, and books of register.

Asset management arrangements for public and private sector organizations are stipulated in the Accounting Law 1996 and NAS 19. The basic financial reporting requirements, in accordance with the Accounting Law 1996, Enterprise Law 1991, and the Taxation Code 1998, are as follows: (i) accounting data must be prepared with guidance from NAS, and financial reports must be based on that accounting data; (ii) the annual financial reports of enterprises and organizations must be made available
to banks, stock exchange, investors, lenders, creditors, and others; and (iii) open companies, insurance organizations, banks, stock and commodity exchanges, investment funds, and other financial agencies, must publish their audited financial reports.

The MOF estimates that Uzbekistan currently has around 400,000 to 500,000 public and private sector ‘accountants’ of whom 148,000 are chief accountants (the Accounting Law 1996 requires that every organization must have a chief accountant although chief accountants do not have to be certified accountants). These ‘accountants’ are equally divided between the public and the private sectors. This surprisingly high estimate is due to the: predominance of manual-transaction processing systems; inclusion of bookkeepers, tax inspectors, and record keepers in the estimate; and significant compliance requirements imposed on organizations by regulations and statistical reporting requirements - Uzbekistan has an abundance of regulations and decrees, many of which are accompanied by the requirement to make reports to a range of government agencies.

Until 1991, auditing in the Soviet Union, which included Uzbekistan, reflected the highly prescriptive nature of the underlying accounting system. It was primarily a verification exercise, with the final accounts being compared to bookkeeping records by accountants from another enterprise within the same group. With the exception of a few large international firms, auditing in accordance with International Standards on Auditing (ISAs) is a relatively new concept in Uzbekistan. As such, qualified audit certificates have not been issued in Uzbekistan as National Auditing Standards (which are based upon ISAs) have only been recently introduced with the Auditing Law 2000.

Auditing licenses are currently issued by the MOF to auditing companies that must employ at least two certified auditors. The new Auditing Law 2000 will tighten up auditor licensing. In particular, it states that audits can only be conducted by licensed audit firms (all audit firms must be registered with the Ministry of Justice); makes audit firms legally liable for the quality of their work and for the accuracy of their opinions; requires that an audit firm must employ at least two certified auditors; and requires that audit firms must meet and maintain minimum capital adequacy requirements. Article 21 of the Auditing Law

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51 Open companies are allowed to issue shares to the general public. Closed companies are not allowed to issue shares to the general public.

52 These estimates were confirmed by the Deputy Minister of Finance on 2 October 2000.
2000 states that audit licenses will be issued by the MOF which will also: design and approve norms regulating audit activities including national audit standards; control compliance of auditing organizations with their licensing agreement; set qualification requirements for candidates to be qualified as auditors; approve educational programs and the framework of examinations; conduct exams; revoke and terminate audit licenses and publish information in the media about suspension or termination of audit licenses; issue, suspend, and revoke qualification certificates; and maintain a register of qualified individuals and licensed organizations. The new process for issuing auditing licenses was approved by the Cabinet of Ministers on 22 September 2000. The Auditing Law 2000 also provided for the establishment of the Republican Union of Auditors, which is a nongovernmental, noncommercial organization that represents auditors on a voluntary basis. The Union's objectives are to assist in the development of, and to provide support to, professional auditors, and defend their professional interest. Its role will be to: participate in the design and approval of the curriculum and structure of the qualifying examinations, conduct the qualifying exams, and design and prepare proposals on improving audit legislation.

Uzbekistan does not have a Supreme Audit Institution (SAI). The Head Department of Control and Revision (HDCR), which is a division of the MOF, is the organization that is closest in concept to an SAI. The HDCR monitors financial activities, using a transaction-based approach (i.e., examination of financial transactions, identification of financial discrepancies, and fraud investigation). As a division of the Ministry of Finance, the HDCR would not appear to be independent from the Executive. However, the Government contends that the HDCR is independent as the Minister for Finance submits their reports directly to the Parliament.

Four of the five largest international accounting firms are represented in Uzbekistan. As of June 2000, there were 517 registered auditing companies in Uzbekistan. It is estimated that 108 of these auditing companies are subsidiaries of government agencies. The Government has recognized that these arrangements undermine auditor independence and the new Auditing Law 2000 prohibits such linkages. In addition, 394 of these auditing companies have capital ranging from SUM 200 to SUM 100,000 ($0.29–$147.00). Many of these companies do
not have offices and, in the opinion of some workshop attendees, do not even conduct audits. Moreover, in undertaking audits, many of these firms exposed themselves to liabilities far in excess of their financial resources—i.e., they were not financially accountable for their audit conclusions (opinions). In recognition of this situation, the new Auditing Law 2000 stipulates minimal capital requirements for auditing firms.

Professional Infrastructure
Uzbekistan’s first professional accountancy organization, the Association of Accountants and Auditors (AAA), was formally established as a nongovernmental organization in March 1992 and currently has around 4,000 members. The AAA has two membership categories: associate member and full member. There are currently around 3,000 associate members and 1,000 full members. In general, associate members must have a bachelor degree and three years of practical experience, and must pass professional exams. Full memberships are granted once further professional exams are passed. Uzbekistan has sector-neutral accounting and auditing standards and a unified accounting profession. As such, officials do not consider it necessary to establish a separate membership category for public sector members.

The approval of the Auditing Law in May 2000, provided for the establishment of a state organization that would license auditors and audit firms (this responsibility was assigned to the MOF), and a Republican Union of Auditors (RUA) that would act as a professional body for auditors.

Accounting and Auditing Standards
One of the main aspects of accounting reform in Uzbekistan is the development of a series of National Accounting Standards (NASs) that are based upon IASs. Nineteen NASs were drafted towards the end of 1997 and by the end of 1998, 16 had been approved by the MOF and registered with the Ministry of Justice. The design and approval of NASs is the responsibility of the MOF. There are only minor differences between NASs and IASs, primarily due to accounting choices being restricted. Uzbekistan uses sector-neutral accounting standards. With very few exceptions, accounting standards and procedures apply to both the public sector and the private sector.

The Auditing Law 2000 has only recently introduced the concept of auditing standards to Uzbekistan. Auditing standards are being
developed based on International Standards on Auditing. As of June 2000, 10 out of the 24 National Auditing Standards that had been developed had been approved.

**Education and Training**

Like other states of the Former Soviet Union (FSU), Uzbekistan has a very high literacy rate (99 percent) and high educational standards. To maintain high education levels, and to improve the effectiveness of the education system in meeting the skills requirements and societal needs in a market economy, the Government is implementing an education system reform program. This program, called the National Program for Personnel Training was approved by Parliament in 1997. ADB is providing substantial support through project loans and technical assistance. It should be noted that, due to the lack of differences between public sector and private sector accounting practices, public sector and private sector accountants are trained under the same programs.

Twelve state institutions offer undergraduate and postgraduate programs in accountancy. The Accountants and Auditors Association (AAA) provides advice and input to universities and technical colleges in terms of the development and quality of accounting and auditing courses - their advice reflects input from private sector representatives. In addition, both USAID and the British Council have supported curriculum development. The accountancy curricula of tertiary institutions include courses on management accounting, financial accounting, international accounting, audit, finance, and taxation. Sector-specific and industry-specific courses are also offered, for instance, in transportation accounting. Four of the 12 educational institutions have been delegated auditor-training responsibilities. The Government's intention, as part of the overall accounting and auditing reforms, is to extend this right to nongovernmental organizations and other higher education institutions so as to broaden the regional provision of training.

**Government Budgeting and Accounting**

In line with other reforms, Uzbekistan has taken a gradual approach to reforming public sector budgeting, accounting, and reporting arrangements. These represent a continuation of pre-transition central

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54 See for instance, Loan-1594: Basic Education Textbook Development, for $20.0 million, approved on 17 December 1997.
planning systems. The Government is continuing to improve fiscal management systems and processes, particularly since 1996. In addition, a public investment planning (PIP) framework and process has been successfully established. The PIP framework covers capital budgeting and planning for the public sector.\(^5\) With respect to budgeting, the present Law of Budget Principles dates back to 1988. A new law on Organization of the Budget of the Republic of Uzbekistan was drafted in 1995, with USAID assistance, but was never approved. In 1999, in place of this proposed law, the Cabinet of Ministers approved a resolution on Improved Order of Budget Financing. This resolution updated revenue classifications to international standards, and adopted some of the more acceptable provisions that had been included within the proposed law.

Uzbekistan uses sector-neutral accounting. That is, with few exceptions, accounting standards, regulations, and procedures apply equally to public sector organizations and to private sector organizations. Budget organizations account and report in accordance with the Accounting Law 1996, NASs, Accounting Instructions for Budget Organizations and operational classifications of revenues and expenditures of the State Budget. The staged introduction of NASs, based on IASs, will improve public sector reporting because the accounting and financial reporting requirements for the private and public sectors are the same.

**Donor Assistance**

**ADB** has only recently commenced operations in Uzbekistan. The first Technical Assistance was approved on 9 July 1996 and the first loan on 17 December 1996. ADB has provided loans to support transport sector rehabilitation, textbook development, and rural enterprise development. Technical assistance has been provided along with these loans to support the development of financial management capacity within executing agencies.\(^6\) The major initiatives that ADB has supported, or is supporting, in direct relation to financial management and governance are as follows:

- **TA on Corporate Governance ($700,000: 2000– ).** The objective of this TA is to enhance transparency and disclosure in decision-making

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\(^5\) TA No. 2771-UZB: Improving Aid Coordination and Management, for $600,000 approved on 18 March 1997.

\(^6\) See, for instance, TA No. 2948-UZB: Capacity Building in Education Finance, for $500,000, approved on 17 December 1997.
processes, and to strengthen the protection of investors' rights within enterprises in Uzbekistan.

- TAs No. 2771-UZB and 3190-UZB: Improving Aid Coordination and Management ($600,000 and $800,000). These TAs are supporting the development of a comprehensive and fully integrated planning, budgeting and aid-management system, and a transparent procurement system.

- TA No. 3045-UZB: Developing Commercial Banking Skills ($1 million). This TA supported the development of training capacity within the Banking and Finance Academy.

- TA No. 3352-UZB: Strengthening the Banking Sector ($1 million). In addition to providing specific assistance to two commercial banks, this is supporting a comprehensive evaluation of the banking sector. The TA will also recommend measures to improve financial disclosure and corporate governance within the sector.

- Proposed Regional TA for an Audit Training Program for Central Asian Republics. The objective of this proposed TA, to Kazakhstan, the Kyrgyz Republic, and Uzbekistan, is to enhance government auditing capacity by introducing basic auditing concepts and techniques, and introducing basic fraud investigation techniques.

The International Monetary Fund program has been suspended since December 1996, due to the Government’s introduction of restrictions on the trade and foreign exchange regimes. The World Bank has taken a lead role in the banking and finance sector, but has not provided direct assistance for upgrading accounting and auditing. The UNDP / EU-TACIS Accounting Reform Project initially had three directions: development of the Accounting Law, development of the Production Cost Regulation, and development of a new Auditing Law. In addition, a large training program was designed and implemented to support the introduction of the Production Cost Regulation. The project provided direct training to 1,800 accountants and tax inspectors. It was intended that these trainees would pass knowledge on to a further 100,000 'accountants'.

USAID has provided substantial support to improve accounting and auditing capacity and arrangements, including: (i) Financial Sector\(^\text{57}\) - USAID is providing support to improve bank supervision and the ability of the Central Bank to enforce tightened financial performance and

reporting requirements for commercial banks. In this respect, USAID has supported the training of accountants in commercial banks and assisted the Central Bank to develop reporting requirements for all commercial banks; (ii) Fiscal Management\textsuperscript{58} – The purpose of this project is to improve fiscal policies and fiscal management practices. In early 1998, a new tax code and a proposed Budget System Law were introduced to Parliament but neither was passed by Parliament. USAID assistance has been responsible for three budget reform seminars and one seminar in fiscal reform; and (iii) Accounting Reform\textsuperscript{59} – This project represents a continuation of the EU / UNDP efforts (see above) and was launched in late 1998. USAID advisors are working with the Ministry of Finance to introduce a new Chart of Accounts that is in accord with IASs. Substantial training is also being provided to accountants. Since 1993, JICA (Japan) has organized training in Japan’s financial and audit system for about 20 trainees from Uzbekistan. TICA (Turkey) has provided accounting training to 106 Uzbek financiers, and has supported the development of the Banking and Finance Academy through the training of teachers and students (1997–1998). The European Bank for Reconstruction and Development supported the foundation of the Banking and Finance Academy. The British Council has been providing ongoing support for accounting training. The project began in September 1992 with the objective to assist in the process of reforming accounting and accounting education. Under the project, over 300 teachers of accounting, finance, and management from accountancy education institutions throughout Uzbekistan have been intensively retrained in the new accounting requirements of a market economy. The approach taken has been to train accounting trainers. Nottingham Business School, the project consultant, has established Accountancy Training Resource Centers in leading accounting education institutions. Each resource center has well-equipped teaching rooms, a strong organizational structure, computer and reprographic facilities, and Internet and e-mail facilities.

Issues and Recommendations
This part presents the issues and recommendations that are associated with gaps or weaknesses in Uzbekistan’s accounting and auditing arrangements.


\textsuperscript{59} 110-S001.3: Accelerated Development and Growth of Private Enterprises. $6,200,000. 1998–.
Strengthening the Accounting and Auditing Profession

The new Auditing Law 2000, in combination with Cabinet resolutions, assigns auditor certification and audit standard-setting responsibilities to the Ministry of Finance and the Republican Union of Auditors (RUA). This in response to concerns over the quality of auditors and auditing firms, and the coverage of their services throughout Uzbekistan. The Ministry of Finance will issue audit licenses. The RUA’s objectives are to assist in the development of, and to provide support to, professional auditors, and defend their professional interest.

It is recommended that the Government request for technical assistance to develop the new auditor examination and certification system. The project would involve: (i) investigating design options for examination systems; (ii) establishing a database of examination questions; (iii) developing a grading system; (iv) examining the feasibility of, and options for, developing an on-line examination system; (v) developing suitable examination software, and (vi) designing and implementing management procedures.

Professional Supervision of Accounting and Auditing Firms

The new Auditing Law 2000 was enacted with the objective of improving the quality of audit services. The measures that the new law will introduce, such as better qualifications and minimum capital requirements will, no doubt, have a positive impact on the competence of accounting and auditing firms. Furthermore, improved supervision can have significant impacts on the quality and availability of professional services. There are a variety of options available for strengthening professional supervision, which include supervision teams, development of reporting systems and peer-review regimes. It is recommended that a project to improve professional supervision be undertaken. The project would involve: (i) studying the existing structures and procedures of accounting and auditing 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 Uzbekistan that takes account of the country’s situation and provides sufficient flexibility to deal with environmental changes; (iv) implementing the supervisory system and associated reporting systems; (v) reviewing and, where necessary,  

60 In February 1999, UNCTAD issued Education Guidelines – agreed by 146 countries of which Uzbekistan is one. The Standards spell out the various subjects in each examination and the level of knowledge required.
revising auditors’ legal responsibilities and associated disciplinary regulations, and (vi) improving the competence and effectiveness of managers with supervisory responsibilities through training.

Strategic Development Plan for the Profession
The establishment of the RUA represents a new phase in the development of Uzbekistan’s accounting and auditing arrangements. A medium to long-term strategic plan, for the development of the accounting and auditing profession would guide efforts and provide a basis against which to measure progress. Such a plan would encompass professional supervision, professional development, and administrative structures and systems. **It is recommended that** a project to develop a strategic plan for the development of auditing and accounting profession be undertaken. The project would involve: (i) researching the present situation of the Uzbek accounting and auditing profession; (ii) analyzing existing problems; (iii) examining and drawing useful lessons from international experience in terms of the development of the accounting and auditing profession; and (iv) using this information and the associated analyses to formulate a medium to long-term development plan for the Ministry of Finance, RUA and the accounting and auditing profession.

Creation of Internal Auditing Profession
Internal Auditing is an important part of the accountability mechanism. However, Uzbekistan has no professional organization for Internal Auditors. Nor are there standards for Internal Auditing. **It is recommended that** the Government request for technical assistance to: (i) establish a professional institute for Internal Auditors; (ii) develop internal auditing standards, based on those issued by the International Institute of Internal Auditors; and (iii) develop and deliver a training program for internal auditors based on those internal auditing standards.

Development of Accounting Standards
The speed at which accounting standards are developed is severely constrained by the Ministry of Finance’s capacity in this area – the accounting division only has seven staff. **It is recommended that** the Government request for technical assistance to assist in the development of the remaining National Accounting Standards.
Development of Auditing Standards

The limited resources available to the Ministry of Finance and the RUA will determine the speed at which auditing standards are developed. **It is recommended that** the Government request for technical assistance to assist in the development of the remaining 14 National Auditing Standards.

Development of Educational and Training Materials

The AAA and tertiary institutions have developed a range of training materials in the past ten years. However, the rapidly changing environment and the need to provide materials in the Uzbek language are major challenges. For instance, there is no textbook on budgeting and management accounting available in Uzbek. Multi-media and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment and can easily be distributed to far-flung regions. **It is recommended that** a project to improve training materials for continuing professional education of accountants and auditors be developed. The project would involve: (i) studying options for preparing and providing training materials to accountants and auditors; (ii) developing a medium to long-term plan for developing continuing professional education; (iii) studying options for developing and delivering training materials using modern technology, and (iv) developing training materials.

Public Budgeting and Finance Issues

Public sector reporting classifications do not meet international standards. In addition, the consolidated budget entity is very narrowly defined and a significant amount of government activities are excluded from budget classifications and government balances. **It is recommended that** a comprehensive review of aggregate government budgeting and reporting practices be undertaken and that: (i) the Government reporting entity should be redefined in accordance with international norms; (ii) all government transactions and balances should be included in the consolidated budget; (iii) the amount of information provided with the Budget should be more detailed, and (iv) a new report that analyses financial information in accordance with Government Finance Statistics (GFS) classifications should be developed and introduced. These recommendations are consistent with the International Monetary Fund’s Guidelines on Fiscal Transparency and previous World Bank recommendations.
Training for Accounting Lecturers and Professors
The quality of undergraduate teachers is a key factor in developing competent accountants. The training that accountancy tutors and professors received in 1996-1997 was well received and highly regarded. However, that was a one-off initiative and has not been repeated. It is recommended that (i) a specific and sustainable training program for accounting professors and lecturers be developed and implemented, and (ii) a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Independent Supreme Audit Institution (SAI)
The absence of an independent Supreme Audit Institution severely undermines public sector transparency and accountability. Furthermore, the Head Department of Control and Revision (HDCR), which is a division of the Ministry of Finance, is the organization that is closest in concept to an SAI, monitors financial activities using a transaction-based approach (i.e. examination of financial transactions, identification of financial discrepancies, and fraud investigation). HDCR’s auditors have no experience in conducting value-for-money audits, or reviewing internal control systems. Moreover, compliance audits focus on compliance with budget rules and regulations. Reviews do not involve the attestation of financial statements. It is recommended that the Government consider establishing an independent, competent Supreme Audit Institution in line with best international practice. This would require the following steps: (i) defining and agreeing suitable organizational objectives and responsibilities for the SAI; (ii) designing and agreeing a legislative and organizational framework that afforded the SAI a suitable level of independence and the necessary powers to discharge its responsibilities, and identified funding arrangements that would support independence while encouraging operational efficiency; (iii) identifying staffing and structural needs; (iv) developing a strategic plan for the establishment of the SAI which would include professional development and training arrangements for personnel; and (v) establishing the SAI on the basis of the foregoing actions.

AAA Membership Categories
The AAA has two membership categories; associate member and full member. The membership criteria for associate members (Bachelor degree plus three years practical experience), is reasonably high. The
membership of the new Republican Union of Auditors (RUA) will be comprised solely of certified auditors and audit firms. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria (e.g. Accounting Technician). The establishment of additional membership categories within the AAA would provide transitional routes for aspiring accountants and a professional body for lower-level accountants. Furthermore, a separate membership category for lesser-qualified public sector accountants would provide public sector accountants with a professional organization, improve their societal status, and improve their knowledge and competence. It would also increase the AAA’s membership and revenue base and further unify the accountancy profession. **It is recommended that** the AAA consider: (i) establishing additional membership categories – at least for accounting technicians, and (ii) establishing a new category of membership for public-sector accountants and developing appropriate entry criteria.

**Independence of Auditing Firms from Government**

The most important element among the fundamental ethical principles accepted by the international accounting profession is independence. In Uzbekistan it is estimated that 108 of the 517 auditing companies are subsidiaries of government agencies. The new Auditing Law 2000 prohibits such linkages. As required by the Auditing Law 2000, **it is recommended that** the Government separate auditing firms from government agencies as a matter of priority.

**Independent Accounting Standard-Setting Body**

The issue of whether accounting standard-setting should be a government or private sector function is a common one for many countries. Uzbekistan has taken the former option. **It is recommended that** the Ministry of Finance consider assigning accounting standard-setting responsibilities to an independent body, which comprises financial sector representatives, financial sector regulators, and representatives from the accountancy profession.

**Regulatory Compliance Requirements**

Uzbekistan has a highly regulated economy. The level of regulation is accompanied by a stringent reporting regime to government agencies. Accountants bear the brunt of this regime as they are the ones who have to prepare and provide information. This impedes their ability to
improve internal and external, management and financial reporting practices and to contribute to improved financial management within their organizations. It is recommended that the Government consider the impacts of the regulatory regime on the accountancy profession.

7. Viet Nam

Developments and Challenges
The early stages of accounting development in Viet Nam were influenced by countries that had an association with Viet Nam either by military, social or trade links.

1960 – 69 Accounting practices were influenced by China.
1969 – 89 The former Soviet Union played a catalytic role in accounting procedures.
1989 – 95 France and the United States of America had an important influence on financial reporting.
1995 – 98 European Union Project (EUROTAPVIET) introduced International Accounting Standards to the Vietnamese Government.

Current accounting problems include:
- The need for more qualified Vietnamese accountants
- The introduction of International Accounting and Auditing Standards
- The strengthening of the accounting profession and the Viet Nam Accounting Association, and
- The reduction of Government control in accounting and financial reporting matters.

Accounting and Auditing in Viet Nam
The accounting system in Viet Nam is governed by the Ordinance on Accounting and Statistics 1988 and the Vietnamese Accounting System, which was introduced in 1995. The Ordinance gives details of accounting records and reports required to be compiled to suit the needs of taxation and statistics. The system is completely regulated and all forms are standardized and controlled by the Ministry of Finance (MOF). The Vietnamese Accounting System is a reporting system intended to be used by both public and private sector enterprises in Viet Nam.

The State Audit of Viet Nam was established by Government decree in 1994 and the department is a member of INTOSAI and ASOSAI. There are 18 audit firms in Viet Nam; six owned by the State, six owned
by local interests, five owned by foreign interests and one partly state-owned joint venture firm.

Professional Infrastructure
The Chief Accountants Club, which was the first organized accounting association in Viet Nam, was formed by the MOF in 1989 and started with 200 members. This club grew to 600 members and, in 1994, with the assistance of MOF; the Club formed the Viet Nam Accounting Association (VAA).

VAA is a member of the International Federation of Accountants (IFAC) and the ASEAN Federation of Accountants. It is not a member of the Confederation of Asian and Pacific Accountants (CAPA). The membership is approximately 5,000 and the members are categorized as primary members, honorary members and sponsor members. The financial health of VAA is weak and the annual subscription is the equivalent of US$3.55. The structure of the VAA consists of an assembly, a central committee, a standing committee and various subcommittees. Elections for the executive and the central committee are held every five years.

Accounting and Auditing Standards
The Accounting Standards Board was established by the MOF in 1999 and this Board is responsible for the establishment and monitoring of accounting standards in Viet Nam. Vietnamese Accounting Standards are currently being formulated and the plan is to complete a full set by the end of 2003. These Standards will be based on International Accounting Standards (IAS). Four Standards have been completed but not issued. A further six standards have been drafted for comment. Deviations between the present Vietnamese Accounting System and International Accounting Standards have been comprehensively explained in the individual country report. Public Sector Accounting Standards have not yet been considered.

Four Vietnamese Standards on Auditing have been issued and a further six have been completed but not issued. The plan is to complete a full set of auditing standards by the end of 2002. The Vietnamese Auditing Standards are based on International Standards on Auditing (ISAs).

Education and Training
There are 11 State-owned universities providing full-time accounting training in Viet Nam. There are a further six privately owned
universities covering accounting and there are six universities covering postgraduate studies.

To obtain a degree requires a high school certificate plus the successful completion of four years university study; or a high school certificate plus three years successful completion of a college course, plus two years practical experience, plus the successful completion of a qualifying exam, plus one final year at university. The Vietnamese Accounting System is taught at universities. The term “Professional Accountant” is soon to be recognized as a status category for accountants with high qualifications and professional experience.

The Public Sector caters for limited training in government procedures and requires Continuous Professional Education (CPE) training for advancement. The levels of advancement in the public service are Expert, Key Expert, and then Senior Expert.

Government Budgeting and Accounting
The MOF is responsible for the management of financial, accounting and budgeting procedures of the State. The MOF operates under the Vietnamese Accounting System, which is geared at central control. The move towards a free market economy is creating problems that will be overcome when the Vietnamese Accounting Standards are established.

The State Budget System is a unified system consisting of the central state budget and budgets at grassroots levels. Budget preparation is the responsibility of the Department of National Budget in accordance with the State Budget Law 1996. A Capital Investment Plan is produced as part of the Budget process.

No Central Assets Register is kept and each department maintains its own register.

Donor Assistance
In recent years, the major assistance provided for accounting and auditing improvement was from the European Union. The European Union Assistance Project (EUROTAPVIET) commenced in September 1995 and was completed in June 1998. The general objective of the Project was to develop skills and competencies for the Vietnamese Accounting and Auditing profession in a market economy. Achievements included:

- Provided knowledge of IAS and ISA through workshops and studies overseas
- Assisted Viet Nam in forming relationships with international accounting bodies
- Improved the quality of audit and accounting training in Viet Nam, and
- Assisted in technical matters relating to computer hardware and software.

Issues and Recommendations
This part presents the issues and recommendations that are associated with gaps or weaknesses in Viet Nam’s accounting and auditing arrangements.

Vietnamese Accounting and Auditing Standards
The Accounting Policy Department has drafted ten Vietnamese Accounting Standards (VAS) using IAS as a base with adjustments to suit Vietnamese conditions. Four of these standards have been commented on by other Government Departments and private sector interests including independent accounting and auditing firms. The Accounting Policy Department has also drafted and finalized ten Vietnamese Standards on Auditing. At this stage, four have been issued and the other six are with the Minister pending approval for their issue. **It is recommended that** technical assistance be provided to the Vietnamese Government to assist in the completion of the new Vietnamese Accounting Standards and the Vietnamese Standards on Auditing.

Vietnamese Public Sector Accounting Standards
The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and ED 9 refers to Financial Reporting under the Cash Basis of Accounting. Since Public Sector Accounting has now gathered momentum on an international basis, it is convenient to introduce appropriate training to cover this subject. Universities and colleges should be encouraged to include this subject in their curricula. **It is recommended that** technical assistance be provided to the Vietnamese Government in order to establish the Vietnamese Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC.

Ordinance on Accounting and Statistics
The Ordinance on Accounting and Statistics was promulgated in 1988 and remains the major law on accounting in Vietnam. It was drafted in a
period when the Government and State-owned Enterprises formed the major part of the economy and foreign invested businesses and the non-government private sector were practically non-existent. With the move to a market economy, it is appropriate that the accounting laws be completely reviewed. It is recommended that the Ordinance on Accounting and Statistics be repealed and technical assistance be provided to the Vietnamese Government for the drafting of a new Law on Accounting. It is also recommended that this Law should be drafted in parallel with the drafting of the new Vietnamese Accounting and Auditing Standards and that its promulgation should occur no later than the formal issue of the new Standards.

Accountancy Education and Training
When the new Vietnamese Accounting and Auditing Standards are issued, the staff of the SOEs will need special training and instructions on the use of the new Standards. The new International Public Sector Accounting Standards (IPSAS) have recently been issued by IFAC, and, if the Viet Nam Government agrees to accept these as a base for the introduction of Vietnamese Public Sector Accounting Standards, then Government financial staff will need training on the use and application of these new Standards. It is recommended that: (i) technical assistance be provided to the Vietnamese Government to draw up a plan for the training of Vietnamese accountants on the use of the new Vietnamese Accounting and Auditing Standards; and (ii) this plan should be drawn up in parallel with the setting up of the new Standards. The plan should cover the special training needs of Government and SOE staff.

Training For Accounting Lecturers and Professors
There is no advanced training for accounting lecturers and professors. Many factors support the development of competent accountants. The quality of undergraduate teachers is a key factor in developing competent accountants. It is recommended that: (i) a specific training program for accounting professors and lecturers be developed and implemented; and (ii) a professional organisation be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Public Accounts Committee
Under Viet Nam laws and regulations there appears to be no independent body, which is separate from the Government, which
carries out an independent review of all public expenditures incurred by Government Ministries, agencies and enterprises. Most countries have established a Public Accounts Committee, which publicly examines the expenditure of governments and their agencies. It is recommended that: (i) a Public Accounts Committee be established and be comprised of members from the Vietnamese National Assembly. The PAC should be established by law and the objectives, rules and procedures should be transparent and in the interests of the general public; and (ii) technical assistance be provided to the Vietnamese Government to assist in drafting the necessary laws and regulations.

Review Consolidation and Translation of Laws
The regulatory framework, involving the laws, ordinances, decrees, circulars and decisions of the Vietnamese authorities, appears in need of review and consolidation for ease of reference by professionals and other users. In many cases, titles have changed and cross-references are either incorrect or out of date. It is recommended that: (i) the Vietnamese laws, ordinances, decrees, circulars and decisions be administratively reviewed and up-dated for ease of reference, and (ii) technical assistance be provided for all current commercial laws to be translated into the English language.

Viet Nam Accounting Association
An examination of the VAA Charter reveals some functions that are being undertaken by the Government instead of the Association. There are also problems regarding financial health and non-achievement of objectives by the VAA. It is recommended that the Committee structure and rules should be reviewed as follows: (i) the General Assembly should meet annually, not every five years, and elect the members of the various Committees; (ii) the Central Committee should be abolished and its functions taken over by the Standing Committee, which should be renamed the “Council”, and which should meet bi-monthly; (iii) the Standing Committee should adopt a more positive role in achieving the functions outlined in the VAA Charter; (iv) the VAA should also consider increasing its fees; and (v) the VAA should open its membership to non-citizens.

Public Sector Accounting Standards Board
The International Federation of Accountants (IFAC) saw the need to develop another set of accounting standards for “not for profit” organizations, which mainly consisted of national governments, and, in
1996, formed a committee to develop a set of International Public Sector Accounting Standards (IPSAS). These Standards were issued in May 2000 and included eight Public Sector Standards and one guideline. A further seven Exposure Drafts were issued in July 2000. Most countries have two Accounting Standards Boards; one for the private sector and one for the public sector. It is recommended that consideration be given to the setting up of a Vietnamese Public Sector Accounting Standards Board in order to plan and establish the Vietnamese Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards.

Conflict of Interest
There are more than 5,000 State-owned Enterprises, owned by the Central Government and “managed” by the Ministry which has functions and powers which relate to that SOE. While this procedure may be suitable from an administrative point of view, it does present problems in the nature of a conflict of interest, eg. awarding tenders, etc. The SOEs will be equitized over future years in accordance with the Equitization Plan of the Government and the conflict of interest situation will diminish. Until this happens it is recommended that: (i) In the case of public complaints and quality control of accountants and auditors these responsibilities should be handed over to the Viet Nam Accounting Association; (ii) in the case of the letting of accounting and auditing tenders an independent board should be established to oversee the selection process.

Transparency Issues
There is a lack of transparency with Government financial reporting. There needs to be an increase in transparency in connection with budgetary and public accounts information. Circular No. 65 dated June 1999 prescribes the amount of information available to the government, the employees and other interested parties. Most public inquiries would be classified in the third category and the information available under this category excludes the annual financial statements of SOEs although certain information relating to assets, debt and profits is available. It is recommended that all Government accounts of public expenditures and revenues and all State-owned Enterprises annual financial statements be classified as public information, and that all statistical data, inventories of public property, government procurement policies, and the like be also classified as public information.
Financial Performance Indicators
Under the Viet Nam Accounting System certain ratios are required to be included as notes to the financial statements. These ratios are not strong indicators of performance and they are not the ratios generally required by international lending agencies as part of the covenants of loan agreements. It is recommended that consideration be given to the adoption of financial performance indicators as benchmarks for comparison purposes between financial periods in State-owned enterprises that generate their own income. If adopted, the indicators recommended are the Rate of Return, the Self-Financing Ratio and the Debt Equity Ratio; and further, that these indicators be included as Notes to the Financial Statements.

ADB Anti-Corruption Policy
In order to combat corruption in the public service the following matters should be considered: improvement of accountability measures; detection and investigation of corruption; employment of professional accountants; and effective internal controls.
VI. Main Deficiencies and Action Plans

1. Introduction
The study identified a range of gaps and weaknesses. Some of these are common across the region – as described in section two. The action plans for each country are presented in sections three to nine – each action plan has been agreed in principle with the country representatives who attended the Manila conference in October 2000. The action plans categorize issues into two groups:
- those deficiencies that are better able to be resolved with external assistance; and
- those deficiencies that are able to be resolved without the need for external assistance.

2. Regional Issues and Actions
The individual country studies identified issues that were common across the region. Five regional issues are described below. In some cases, for instance the training of lecturers and professors, ADB is exploring appropriate regional responses.

Public–Private Pay Disparities
There is a general lack of skilled accounting and auditing personnel in all countries in both the private and the public sectors. The problem is particularly acute in the public sector, given lower pay rates. The private sector, because it pays better, is able to attract the few qualified personnel that are available in the market. There is no simple answer for this very serious constraint.

Two recommendations made for individual countries offer a partial response. First, recommendations have been made to support training for public sector accountants. Second, recommendations have been made to create professional membership categories for public sector accountants. The intent of these recommendations is to raise the competence and status of public sector accountants, thereby making this a more attractive career choice for potential employees.

Tertiary Education and Training
The study found that there are constraints in the availability of space at the tertiary institutions. Large investments are needed to create this capacity to train more accountants and auditors.
Accountancy Lecturers and Professors
The training of accountancy lecturers and professors needs urgent attention. It was revealed that accountancy trainers at universities and colleges are not up to date in the latest international best practices. If the quality of accounting and auditing support is to be improved in countries, then investments must be made to train trainers on the implementation and use of international accounting and auditing standards.

Training Materials
The availability of textbooks in local languages is another major constraint that has been brought to light. Urgent attention is needed to provide assistance to prepare textbooks in local languages.

International Public Sector Accounting Standards
The international donor community supported the development of the recently issued IPSASs. It is likely that the donor community will encourage their usage - whether on the cash or the accrual basis of accounting. Assistance will be required to draw up plans to prepare countries for the eventual adoption of these standards. This will require changes in legislation, training of personnel, and other measures.

3. Action Plan: Cambodia

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<td>Assisting a review of the asset recording system</td>
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<td>Assisting the upgrading of postgraduate training</td>
<td>Medium</td>
<td>✅</td>
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## Main Deficiencies & Action Plans

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<td>Supporting the preparation of a monthly report on capital expenditure</td>
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<td>Lack of transparency in government reporting</td>
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<td>Inadequacies in the budget monitoring process</td>
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<td>Absence of Accountant General position</td>
<td>Low</td>
<td>✗</td>
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</tbody>
</table>

### 4. Action Plan: China, People’s Republic

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Assisting CICPA with a project to improve professional supervision</td>
<td>High</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assisting CICPA to reform the CPA examination system</td>
<td>High</td>
<td>✓</td>
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<tr>
<td>----------------------------------------------------------------------</td>
<td>----------</td>
<td>-------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Assisting the MOF to reform the National Uniform Accountant examination system</td>
<td>High</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Assisting CICPA to develop a strategic plan for the development of accounting profession</td>
<td>High</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Assisting the CNAO to develop an explicit strategy for professional development</td>
<td>High</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Assisting the CNAO to identify, procure, and implement computerized audit support systems</td>
<td>High</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Assisting the CIIA to develop a set of professional standards and guidelines and training materials to support their introduction</td>
<td>High</td>
<td>✅</td>
<td>✅</td>
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<tr>
<td>Assisting in the development and implementation of a training program for accounting professors and lecturers be developed and implemented</td>
<td>High</td>
<td>✅</td>
<td>✅</td>
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<tr>
<td>Conflicts between Regulations and Accounting Standards</td>
<td>High</td>
<td>✖</td>
<td>✅</td>
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<tr>
<td>Assisting the establishment of a professional organization to represent accountants (Non-CPAs)</td>
<td>Medium</td>
<td>✅</td>
<td>✅</td>
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<tr>
<td>Assisting the Chinese Institute of Internal Auditing (CIIA) to develop internal auditor examination systems and certification procedures</td>
<td>Medium</td>
<td>✅</td>
<td>✅</td>
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</table>
## Main Deficiencies & Action Plans

<table>
<thead>
<tr>
<th>Issue</th>
<th>Priority</th>
<th>Donor Assistance</th>
<th>Country Support</th>
<th>2001 ~ 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisting CICPA to improve training materials for CPA continuing professional education</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>Assisting the CIIA to develop a set of Internal Auditing Standards, based upon International Internal Auditing Standards</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Assisting in the development and implementation of public sector standards</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>The lack of independence of the accountancy profession (CICPA) from the Government</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
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</tr>
<tr>
<td>The lack of independence of accounting standard-setting responsibilities from the Government</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
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</table>

### 5. Action Plan: Mongolia

<table>
<thead>
<tr>
<th>Issue</th>
<th>Priority</th>
<th>Donor Assistance</th>
<th>Country Support</th>
<th>2001 ~ 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting the reassignment of institutional responsibilities, the establishment of a statutory body with accounting-standard responsibilities, and development of related legislative changes</td>
<td>High</td>
<td>✓</td>
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<tr>
<td>Supporting the establishment of a Continuing Professional Education (CPE) System for CPAs</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------</td>
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<td>---------------------------</td>
<td></td>
</tr>
<tr>
<td>Support for training accountants in the countryside</td>
<td>High</td>
<td>✔</td>
<td></td>
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<tr>
<td>Assisting the development of a project to train accountancy lecturers and professors in modern methods of teaching accountancy</td>
<td>High</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The excessive requirements for audits and the short timeframes in which those audits must be performed</td>
<td>High</td>
<td>×</td>
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<td></td>
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<tr>
<td>The granting of CPA titles to unqualified accountants (i.e. after the first of three exams is passed)</td>
<td>High</td>
<td>×</td>
<td></td>
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</tr>
<tr>
<td>The retention of CPA titles by accountants who qualified under low criteria from 1993 to 1997</td>
<td>High</td>
<td>×</td>
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<tr>
<td>Supporting a comprehensive review of reference and training materials and the development of new materials</td>
<td>Medium</td>
<td>✔</td>
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<tr>
<td>Assisting with the provision of training on IAS and Financial Reporting to personnel from the Banking Supervision Department of the Bank of Mongolia</td>
<td>Medium</td>
<td>✔</td>
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<tr>
<td>Supporting the continuation of public education initiatives on the nature and uses of financial information</td>
<td>Medium</td>
<td>✔</td>
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</table>
### Main Deficiencies & Action Plans

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Assisting in a project to develop a supervision regime for the activities of accounting and auditing firms</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Supporting the establishment of subsidiary membership categories in MICPA (e.g. accounting technician and public sector accountant)</td>
<td>Medium</td>
<td>✓</td>
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<tr>
<td>The lack of recognition given to the public sector accounting policies developed under the governance reform program</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
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</tr>
<tr>
<td>The withholding of CPA certificates from the 18 candidates who qualified under the ADB-supported training scheme</td>
<td>Medium</td>
<td>×</td>
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### 6. Action Plan: Pakistan

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<tr>
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<tbody>
<tr>
<td>Assisting in the feasibility study for the establishment of an accounts and audit academy at Islamabad</td>
<td>High</td>
<td>✓</td>
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<tr>
<td>Assisting in the development of a specific training program for accounting professors and lecturers</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Assisting a review of the asset recording system and complete fixed assets stock-take</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>----------------------------------------------------------------------</td>
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<td>-------------</td>
</tr>
<tr>
<td>The separation of the accounts and audit functions of government</td>
<td>High</td>
<td>✗</td>
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<tr>
<td>Supporting the review of all commercial laws</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Assisting the enhancing of accounting training of institutions and accounting bodies</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>The absence of an independent Pakistan Accounting Standards Board</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td>The absence of a Public Sector Accounting Standards Board</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Absence of Public Sector Accounting Standards</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
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</tr>
<tr>
<td>The absence of the application of international accounting standards for unlisted companies</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td>The absence of effective Public Accounts Committees</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>The absence of an effective internal audit function</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td>Joining the Institute of Internal Auditors</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td>The amalgamation of accounting bodies into one or two organizations</td>
<td>Low</td>
<td>✗</td>
<td>✗</td>
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<tr>
<td>The absence of a public relations program directed at the small businesspeople</td>
<td>Low</td>
<td>✗</td>
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</table>
### 7. Action Plan: Papua New Guinea

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Assisting in the development of public sector training through the PNGIA</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Supporting the upgrading of accounting facilities at training institutions</td>
<td>High</td>
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<tr>
<td>Assisting in the development of a training program for lecturers and professors</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Lack of action by Public Accounts Committee</td>
<td>High</td>
<td>×</td>
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<tr>
<td>Assisting the development of a Forensic Audit Unit in the AG's Department</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>The absence of public sector accounting standards</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>The absence of a Public Sector Accounting Standards Board</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establishment of the position of Accountant General</td>
<td>Medium</td>
<td>×</td>
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<td></td>
</tr>
<tr>
<td>Review of the Accountants Act</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
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</table>

### 8. Action Plan: Uzbekistan

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Assisting in the preparation of a strategic plan to develop the accounting profession</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assisting the development and implementation of the remaining accounting standards</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------</td>
<td>------------------</td>
<td>-----------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Assisting in the development and implementation of a training program for accounting professors and lecturers be developed and implemented</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Assisting in the design and establishment of an independent, competent Supreme Audit Institution in line with best international practice</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>The linkages between auditing firms and government agencies (which are prohibited under the new Auditing Law)</td>
<td>High</td>
<td>x</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assisting the establishment of a professional institute of internal auditors, the development of internal auditing standards, and training in those standards</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assisting the development and implementation of the new auditor examination and certification system</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assisting the development and implementation of a professional supervision system</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assisting the development and implementation of the remaining 14 auditing standards</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>
## Main Deficiencies & Action Plans

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisting the development and publication of educational and training materials for accountancy training and continuing professional education</td>
<td>Medium</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Assisting in a comprehensive review of government budgeting and reporting practices</td>
<td>Medium</td>
<td>✔️</td>
<td>✔️</td>
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</tr>
<tr>
<td>The absence of membership categories in AAA for accounting technicians and public sector accountants</td>
<td>Medium</td>
<td>×</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>The lack of independence of accounting standard-setting responsibilities from the Government</td>
<td>Medium</td>
<td>×</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>The impact of the regulatory regime on the accountancy profession</td>
<td>Low</td>
<td>×</td>
<td>✔️</td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Assisting with the drafting of a completely revised Law on Accounting which will include the mandatory application of the new Vietnamese Accounting Standards</td>
<td>High</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Assisting with the drafting of the Vietnamese Accounting Standards using International Accounting Standards as the base</td>
<td>High</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>----------------------------------------------------------------------</td>
<td>----------</td>
<td>-------------------</td>
<td>-----------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Assisting with the drafting of the Vietnamese Standards on Auditing using International Standards on Auditing as the base</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>Assisting with training Accountants and Auditors on the new Accounting Standards and Standards on Auditing</td>
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<tr>
<td>Assistance with the development of a training program for accounting lecturers and professors</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>The avoidance of conflict of interest situations involving the operations of State-owned enterprises</td>
<td>High</td>
<td>×</td>
<td>✓</td>
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</tr>
<tr>
<td>Assisting with the drafting of the Vietnamese Public Sector Accounting Standards using International Public Sector Accounting Standards as the base</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Review, consolidation, and translation of Vietnamese laws, ordinances, decrees, decisions, and circulars</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>The strengthening the Vietnamese Accounting Association and allowing of non-citizens as members</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
<td></td>
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<tr>
<td>The lack of transparency with government reporting involving the Budget Accounts</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>The application of financial performance indicators in revenue generating State-owned enterprises</td>
<td>Medium</td>
<td>×</td>
<td>✓</td>
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</tbody>
</table>
### Main Deficiencies & Action Plans

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Establishment of the Public Accounts Committee</td>
<td>Low</td>
<td>✔</td>
<td>✔</td>
<td></td>
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<tr>
<td>Establishing a Public Sector Accounting Standards Board</td>
<td>Low</td>
<td>✗</td>
<td>✔</td>
<td></td>
</tr>
</tbody>
</table>
References


International Accounting Standards Committee (IASC). 1997 October. IAS Insight.


REFERENCES


Appendix 1. International Accounting Standards

The following IASs were in effect at 30 September 2000.\(^{61,62}\)

<table>
<thead>
<tr>
<th>IAS 1</th>
<th>Presentation of Financial Statements</th>
</tr>
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<tbody>
<tr>
<td>IAS 2</td>
<td>Inventories</td>
</tr>
<tr>
<td>IAS 7</td>
<td>Cash Flow Statements</td>
</tr>
<tr>
<td>IAS 8</td>
<td>Profit or Loss for the Period,</td>
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<tr>
<td></td>
<td>Fundamental Errors and Changes in</td>
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<tr>
<td></td>
<td>Accounting Policies</td>
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<tr>
<td>IAS 10</td>
<td>Events After the Balance Sheet Date</td>
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<tr>
<td>IAS 11</td>
<td>Construction Contracts</td>
</tr>
<tr>
<td>IAS 12</td>
<td>Income Taxes</td>
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<tr>
<td>IAS 14</td>
<td>Segment Reporting</td>
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<tr>
<td>IAS 15</td>
<td>Information Reflecting the Effects</td>
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<tr>
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<td>of Changing Prices</td>
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<tr>
<td>IAS 16</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>IAS 17</td>
<td>Leases</td>
</tr>
<tr>
<td>IAS 18</td>
<td>Revenue</td>
</tr>
<tr>
<td>IAS 19</td>
<td>Employee Benefits</td>
</tr>
<tr>
<td>IAS 20</td>
<td>Accounting for Government Grants and</td>
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<td>Disclosure of Government Assistance</td>
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<tr>
<td>IAS 21</td>
<td>The Effects of Changes in Foreign</td>
</tr>
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<td>Exchange Rates</td>
</tr>
<tr>
<td>IAS 22</td>
<td>Business Combinations</td>
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<tr>
<td>IAS 23</td>
<td>Borrowing Costs</td>
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<td>IAS 24</td>
<td>Related Party Disclosures</td>
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<td>Accounting for Investments</td>
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<td>IAS 26</td>
<td>Accounting and Reporting by</td>
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<td>Retirement Benefit Plans</td>
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<td>IAS 27</td>
<td>Consolidated Financial Statements</td>
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<td>and Accounting for Investments in</td>
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<td>Subsidiaries</td>
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<td>IAS 28</td>
<td>Accounting for Investments in</td>
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<td>Associates</td>
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<td>IAS 29</td>
<td>Financial Reporting in Hyperinflationary Economies</td>
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<tr>
<td>IAS 30</td>
<td>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</td>
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<tr>
<td>IAS 31</td>
<td>Financial Reporting of Interests In Joint Ventures</td>
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<tr>
<td>IAS 32</td>
<td>Financial Instruments: Disclosures and Presentation</td>
</tr>
<tr>
<td>IAS 33</td>
<td>Earnings Per Share</td>
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<td>IAS 34</td>
<td>Interim Financial Reporting</td>
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<td>Discontinuing Operations</td>
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<td>Impairment of Assets</td>
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<tr>
<td>IAS 37</td>
<td>Provisions, Contingent Liabilities</td>
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<td></td>
<td>and Contingent Assets</td>
</tr>
<tr>
<td>IAS 38</td>
<td>Intangible Assets</td>
</tr>
<tr>
<td>IAS 39</td>
<td>Financial Instruments: Recognition</td>
</tr>
<tr>
<td></td>
<td>and Measurement</td>
</tr>
<tr>
<td>IAS 40</td>
<td>Investment Property</td>
</tr>
</tbody>
</table>

\(^{61}\) Source: IASC Website: www.iasc.org.uk

\(^{62}\) The following IASs have been withdrawn:

- IAS 3 was replaced by IAS 27 and IAS 28.
- IAS 4 was replaced by IASs 16, 22, and 38.
- IAS 5 was replaced by IAS 1.
- IAS 6 was replaced by IAS 15.
- IAS 9 (Research and Development Costs) was superseded by IAS 38.
- IAS 13 was replaced by IAS 1.
Appendix 2. IASC Work Plan

The Work Plan of the International Accounting Standards Committee (IASC) at 30 September 2000 is as follows.63

<table>
<thead>
<tr>
<th>Issue</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Final IAS: planned 4th quarter 2000</td>
</tr>
<tr>
<td>Business Combinations</td>
<td>• Added to Agenda: 4th quarter 1998.</td>
</tr>
<tr>
<td></td>
<td>• Specific IASC steps are not yet determined.</td>
</tr>
<tr>
<td>Business Reporting on the Internet</td>
<td>• Staff Research Project.</td>
</tr>
<tr>
<td></td>
<td>• Added to the Board’s Work Program: March 2000.</td>
</tr>
<tr>
<td>Emerging Economies</td>
<td>• Project Added to Agenda April 1998.</td>
</tr>
<tr>
<td></td>
<td>• August 2000: Survey on Barter Transactions.</td>
</tr>
<tr>
<td>Extractive Industries (including Mining and Oil and Gas)</td>
<td>• Project Added to Agenda April 1998.</td>
</tr>
<tr>
<td></td>
<td>• Implementation guidance is being developed.</td>
</tr>
<tr>
<td>Insurance</td>
<td>• Project approved April 1997.</td>
</tr>
</tbody>
</table>

63 Source: IASC Website. www.iasc.org.uk
<table>
<thead>
<tr>
<th>Issue</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
<td>• Project Added to Agenda April 1998.</td>
</tr>
<tr>
<td>(formerly 'Discounting')</td>
<td>• Issues Paper: planned 2nd half 2000.</td>
</tr>
<tr>
<td>Disclosures by Banks and Similar Financial Institutions</td>
<td>• Draft Statement of Principles: planned 4th quarter 2000</td>
</tr>
<tr>
<td>Tax Consequences of Dividends</td>
<td>• Steering Committee appointed: June 2000</td>
</tr>
<tr>
<td>Transition</td>
<td>• Undecided</td>
</tr>
</tbody>
</table>
Appendix 3. History of International Accounting Standards

1966  Lord Benson, the President of the Institute of Chartered Accountants of England and Wales (ICAEW) visits the United and Canada - the Accountants' International Study Group is established to study major accounting issues.

1973  The International Accounting Standards Committee (IASC) is established.

1974  First Exposure Draft (ED) is published. IAS 1 Disclosure of Accounting Policies is published.

1977  The International Federation of Accountants (IFAC) is formed – IASC remains an autonomous body with a close relationship with IFAC (All IFAC members are also IASC members).

1980  The United Nations Intergovernmental Working Group on Accounting and Reporting meets for the first time - IASC presents a position paper on cooperation.


1987  Comparability and Improvements project started. International Organization of Securities Commissions (IOSCO) joins Consultative Group and supports Comparability project. IASC publishes the first bound volume of IASs.

1988  IASC publishes survey on the use of IASs. The United States Financial Accounting Standards Board (FASB) joins Consultative Group and joins Board as observer.

1989  Fédération des Experts Comptables Européens (FEE) President argues that Europe's best interests are served by international harmonization and greater involvement in IASC. Framework for the Preparation and Presentation of Financial Statements approved. IFAC Public Sector Guideline requires government business enterprises to follow IASs.

1990  European Commission joins Consultative Group and joins the IASC Board as an observer.

1991  First IASC Conference of Standard Setters (organized in conjunction with FEE and FASB). FASB plan supports International Accounting Standards.

1993 IOSCO agrees list of core standards and endorses IAS 7 Cash Flow Statements.
Comparability and Improvements Project completed with approval of 10 revised IASs.

1994  SEC accepts three IAS treatments plus IAS 7.
      IASC Board meets standard setters to discuss ED48 Financial Instruments.
      FASB agrees to work with IASC on Earnings per Share.

1995  IASC agrees with IOSCO to complete core standards by 1999 - on successful completion, IOSCO will consider endorsing IASs for cross-border offerings.
      European Commission supports IASC / IOSCO agreement and use of IASs by EU multinationals.

1996  With minor exceptions, the EU Contact Committee finds IASs compatible with EU directives.
      United States Congress calls for 'a high-quality comprehensive set of generally accepted International Accounting Standards'.
      Australian Stock Exchange supports program to harmonize Australian standards with IASs.
      Ministers at World Trade Organisation (WTO) encourage successful completion of International Accounting Standards.

1997  Standing Interpretations Committee formed.
      IASC and FASB issue similar standards on Earnings per Share.
      People's Republic of China becomes a member of IASC and IFAC, and joins IASC Board as an observer.
      FEE calls on Europe to use IASC's Framework.

1998  New laws in Belgium, France, Germany and Italy allow large companies to use IASs domestically.
      First official translation of IASs (German).
      IFAC Public Sector Committee (PSC) publishes the draft Guideline for Governmental Financial Reporting as a platform for a set of International Public Sector Accounting Standards (IPSASs), to be based on IASs.
      Core standards completed with approval of IAS 39 in December.

1999  G7 Finance Ministers and IMF urge support for IAS to 'strengthen the international financial architecture'.
      New IFAC International Forum on Accountancy Development (IFAD) commits to 'support the use of IASs as the minimum benchmark' worldwide.
      European Community (EC) single market plan for financial services includes use of IAS.
      FEE urges allowing European companies to use IASs without EC Directives and phase-out United States GAAP (generally-accepted accounting principles).
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Eurasian Federation of Accountants and Auditors plans adoption of IAS in CIS countries.</td>
</tr>
<tr>
<td></td>
<td>The SEC unanimously approves and issues a concept release seeking feedback on the acceptability of IASs in the United States.</td>
</tr>
<tr>
<td></td>
<td>IOSCO recommends that its members allow multinational issuers to use 30 IASC standards in cross-border offerings and listings.</td>
</tr>
<tr>
<td></td>
<td>European Commission announces plans to require IASC standards for all EU listed companies from no later than 2005.</td>
</tr>
<tr>
<td></td>
<td>IFAC Public Sector Committee (PSC) approves first eight International Public Sector Accounting Standards (IPSASs) and issues seven more EDs.</td>
</tr>
<tr>
<td></td>
<td>IASC board approves constitutional amendments to replace board with 19 trustees.</td>
</tr>
<tr>
<td>2001</td>
<td>New IASC Structure effective from 1 January.</td>
</tr>
</tbody>
</table>
Appendix 4.  IASC Standard-Setting Process

The International Accounting Standards Committee (IASC) process for developing an IAS is as follows:

• The IASC Board selects a topic that needs an IAS and assigns it to a Steering Committee. All IASC members are invited to comment.
• The Steering Committee considers the issues involved and presents a point outline to the Board.
• The Steering Committee receives Board’s comments and prepares preliminary draft.
• The draft is reviewed by the Board and circulated to all members for their comments.
• The Steering Committee prepares a revised draft, which, after approval by at least two-thirds of the Board, is published as an Exposure Draft (ED). Comments are invited from all interested parties.
• Member bodies refer drafts to their own research committees for guidance.
• At the end of six months, comments are submitted to IASC and these are considered by the Steering Committee.
• The Steering Committee then submits a revised draft to the Board for approval as an IAS. The issue of the Standard requires approval of three-quarters of the Board.
• The approved IAS is sent to all member bodies for translation and publication.

Further information on the IASC is available from www.IASC.org.uk and:
Appendix 5. International Standards on Auditing

The following International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPs) were in effect at 30 September 2000.

<table>
<thead>
<tr>
<th>ISAs</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Assurance Engagements</td>
</tr>
<tr>
<td>120</td>
<td>Framework of ISAs</td>
</tr>
<tr>
<td>200</td>
<td>Objective and General Principles Governing an Audit of Financial Statements</td>
</tr>
<tr>
<td>210</td>
<td>Terms of Audit Engagements</td>
</tr>
<tr>
<td>220</td>
<td>Quality Control for Audit Work</td>
</tr>
<tr>
<td>230</td>
<td>Documentation</td>
</tr>
<tr>
<td>240</td>
<td>Fraud and Error</td>
</tr>
<tr>
<td>250</td>
<td>Consideration of Laws and Regulations in an Audit of Financial Statements</td>
</tr>
<tr>
<td>300</td>
<td>Planning</td>
</tr>
<tr>
<td>310</td>
<td>Knowledge of the Business</td>
</tr>
<tr>
<td>320</td>
<td>Audit Materiality</td>
</tr>
<tr>
<td>400</td>
<td>Risk Assessments and Internal Control</td>
</tr>
<tr>
<td>401</td>
<td>Auditing in a Computer Information Systems Environment</td>
</tr>
<tr>
<td>402</td>
<td>Audit Considerations Relating to Entities Using Service Organizations</td>
</tr>
<tr>
<td>500</td>
<td>Audit Evidence</td>
</tr>
<tr>
<td>501</td>
<td>Audit Evidence-Additional Considerations for Specific Items</td>
</tr>
<tr>
<td>505</td>
<td>External Confirmations</td>
</tr>
<tr>
<td>510</td>
<td>Initial Engagements - Opening Balances</td>
</tr>
<tr>
<td>520</td>
<td>Analytical Procedures</td>
</tr>
<tr>
<td>530</td>
<td>Audit Sampling and other Selective Testing Procedures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>540</td>
<td>Audit of Accounting Estimates</td>
</tr>
<tr>
<td>550</td>
<td>Related Parties</td>
</tr>
<tr>
<td>560</td>
<td>Subsequent Events</td>
</tr>
<tr>
<td>570</td>
<td>Going Concerns</td>
</tr>
<tr>
<td>580</td>
<td>Management Representations</td>
</tr>
<tr>
<td>600</td>
<td>Using the Work of Another Auditor</td>
</tr>
<tr>
<td>610</td>
<td>Considering the Work of Internal Auditing</td>
</tr>
<tr>
<td>620</td>
<td>Using the Work of an Expert</td>
</tr>
<tr>
<td>700</td>
<td>The Auditor's Report on Financial Statements</td>
</tr>
<tr>
<td>710</td>
<td>Comparatives</td>
</tr>
<tr>
<td>720</td>
<td>Other Information in documents containing Audited Financial Statements</td>
</tr>
<tr>
<td>800</td>
<td>The Auditor's Report on Special Purpose Audit Engagement</td>
</tr>
<tr>
<td>810</td>
<td>The Examination of Prospective Financial Information</td>
</tr>
<tr>
<td>910</td>
<td>Engagements to Review Financial Statements</td>
</tr>
<tr>
<td>920</td>
<td>Engagements to Perform Agreed-Upon Procedures Regarding Financial Informational</td>
</tr>
<tr>
<td>930</td>
<td>Engagements to Compile Financial Information</td>
</tr>
</tbody>
</table>

Glossary of Terms
Preface to ISAs and RSs
### International Auditing Practice Statements (IAPs)

<table>
<thead>
<tr>
<th>1000</th>
<th>Inter-Bank Confirmation Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001</td>
<td>CIS Environments-Stand-Alone Microcomputer Systems</td>
</tr>
<tr>
<td>1002</td>
<td>CIS Environments-On-Line Computer Systems</td>
</tr>
<tr>
<td>1003</td>
<td>CIS Environments-Database Systems</td>
</tr>
<tr>
<td>1004</td>
<td>The Relationship Between Bank Supervisors and External Auditors</td>
</tr>
<tr>
<td>1005</td>
<td>The Special Consideration in the Audit of Small Entities</td>
</tr>
<tr>
<td>1006</td>
<td>The Audit of International Commercial Banks</td>
</tr>
<tr>
<td>1007</td>
<td>Communications with Management</td>
</tr>
<tr>
<td>1009</td>
<td>Computer-Assisted Audit Techniques</td>
</tr>
<tr>
<td>1010</td>
<td>The Consideration of Environmental Matters in the Audit of Financial Statements</td>
</tr>
<tr>
<td>1011</td>
<td>Implications for Management and Auditors of the Year 2000 Issue</td>
</tr>
</tbody>
</table>

More information on International Standards on Auditing is available from [www.IFAC.org](http://www.IFAC.org).
Appendix 6. Public Sector Accounting Standards

The first eight International Public Sector Accounting Standards (IPSASs) that were issued by IFAC on 24 May 2000 are as follows:

- **IPSAS 1 Presentation of Financial Statements** prescribes the overall considerations for the presentation of financial statements, guidance for the structure and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

- **IPSAS 2 Cash Flow Statements** requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities and the manner in which that cash was used.

- **IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies** requires the classification and disclosure of extraordinary items and the separate disclosure of certain items in the financial statements. It also specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.

- **IPSAS 4 The Effect of Changes in Foreign Exchange Rates** deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for deciding which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates.

- **IPSAS 5 Borrowing Costs** prescribes the accounting treatment for borrowing costs and generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

- **IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities** requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and
guidance on determining whether control exists for financial reporting purposes.

- IPSAS 7 Accounting for Investments in Associates requires all investments in associates to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.

- IPSAS 8 Financial Reporting of Interests in Joint Ventures specifies proportionate consolidation as the benchmark treatment for accounting for such joint ventures entered into by public sector entities. IPSAS 8 also permits – as an allowed alternative – joint ventures to be accounted for using the equity method of accounting.

The following Exposure Drafts (EDs) have also been issued:

- ED 9 Financial Reporting under the Cash Basis of Accounting sets out the overall considerations for the presentation of the financial statements under the cash basis of accounting, guidelines for their structure, and minimum requirements for their content.

- ED 10 Revenue from Exchange Transactions proposes requirements for the accounting treatment of revenue arising from exchange transactions and addresses the issue of revenue recognition for these transactions.

- ED 11 Inventories proposes the accounting treatment for inventories under the historical cost system.

- ED 12 Construction Contracts proposes requirements for the accounting treatment of revenue and costs associated with construction contracts.

- ED 13 Financial Reporting in Hyperinflationary Economies proposes requirements for financial reporting under conditions of hyperinflation.

- ED 14 Property, Plant and Equipment proposes the accounting treatment for property, plant and equipment, including the timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation.

- ED 15 Leases proposes requirements for the accounting treatment of leasing transactions.

These standards and exposure drafts, and other guidance and reference materials, can be downloaded from www.IFAC.org.