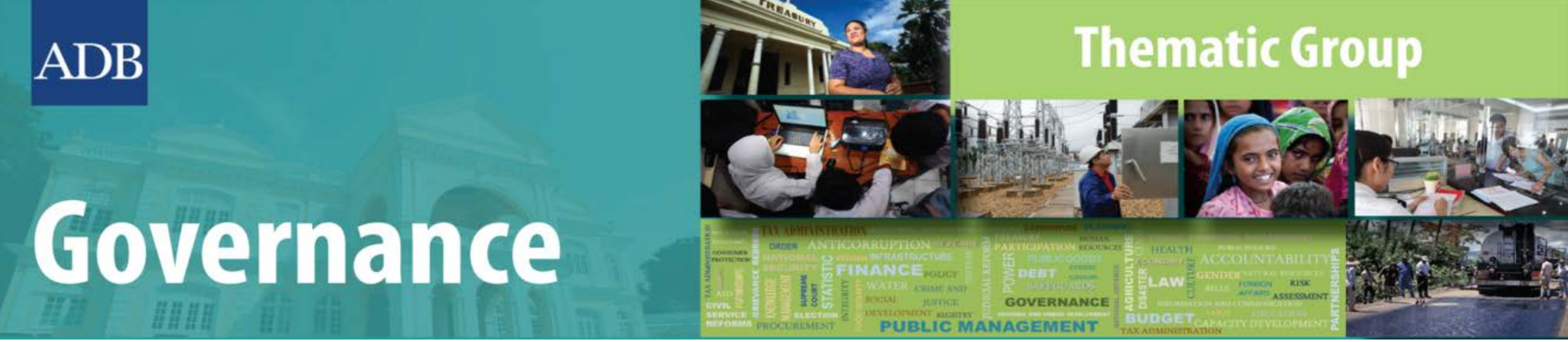


Financial Reforms for Economic Development – Forum

Kuala Lumpur, 17-18 May, 2016

Joint event of the World Bank and the Confederation of Asian and Pacific Accountants

Background

- Basic observations on financial reforms:
  - We have been getting along quite well for the last couple of centuries with the same system of financial management;
  - We have made incremental changes to rules to keep up with the times;
  - What is the need for wholesale change? What do we get out of changing our FM systems?
- Reform is often faced with both passive and active resistance that has to be strategically overcome

Overarching objectives of PFM Reform

- Need to see PFM in terms of (a) better fiscal management, (b) improving economic freedom, (c) facilitating ease of doing business, (d) improving the rule of law, (e) minimizing opportunities for corruption and fraud, and (f) expanding the fiscal space of governments.

- Not just to get better quality accounts – that is only a means to the end.

Dimensions of PFM Reform

- Adoption of international public sector accounting standards (IPSAS)
- Basis of accounting and budgeting can be accrual or cash
- Adoption of modern IT enabled financial reporting systems
- Strengthening staffing, upgrading staff skills
- Strengthening Supreme Audit Institutions

Advantages of IPSAS

- Accrual-based IPSAS - consolidated, whole of government, accounts, enhanced transparency and credibility of public finances.

- Governments can get better credit ratings, and improved access to market-based finance for longer tenors and at lower cost.

- Some examples of what good accounts can produce, in terms of government's net worth:
  - UK - negative GBP450 billion in 2014
  - Australia - negative A$285 billion - 2015
  - New Zealand - positive NZ$66 billion - 2015

Key Challenges

- Cost – between 0.01% to 0.05% of GDP.
- Time - 4-6 years.
- Sustained political commitment, and vision.
- Capacity gaps in project management, auditing, IT infrastructure.
- Legal framework.
- Incomplete and inaccurate records of assets and liabilities, confidential data like military assets.
- Valuation of assets and liabilities not done properly.
- Contingent liabilities
- Weak incentive structures for private audit professionals.
- Re-training thousands of staff to think accrual in place of cash

Progress towards IPSAS Adoption

- Many DMCs switching to IPSAS from modified cash-based systems
- Some are leap-frogging to accrual-based IPSAS. Others (eg, Nepal, India, Sri Lanka) are making a gradual switch-over.
- Many others are likely to take a two-step approach, initially switching over to cash-based IPSAS, and later to accrual basis. Time taken may be considerable for the second step.
- Among ADB's members, some early adopters of accrual-based IPSAS: NZ, Australia, UK, Canada, Austria
- Among DMCs, Malaysia & Indonesia have completed the first phase of central government level conversion in 2015, adopting a big bang approach.

ADB’s Role and Vision

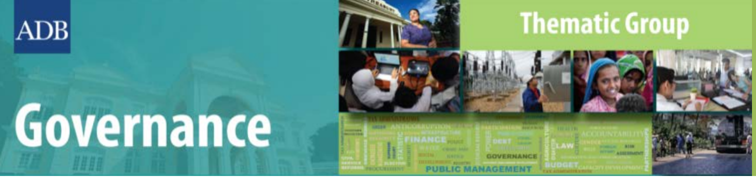
- ADB’s policy based loans for PFM reform do not require IPSAS adoption.
- Many members are likely to adopt cash-basis IPSAS in the near future.
- As the costs of conversion to accrual basis may be very high, adopting accrual basis may take much longer.
- To ensure its primary obligation to publicly disclose audited project financial statements is fulfilled with minimal reputational risk, ADB is looking for ways to help its borrowers and EAs in better project accounting.
- ADB is working on an eLearning module for cash-based IPSAS, that is planned for rollout within 2016.

Attracting and Retaining Finance Professionals

- Training a professional accountant requires up to 6 years.
- All government accountants need not be professional accountants.
- A ratio of 1 professional accountant to between 4 and 10 accounting technicians is recommended, following country contexts.
- Professional accounting organizations need to develop a training program that will provide a continuous supply of accounting technicians.
- Through MOSAIC, ADB is participating in a trial project in Africa named Foundations, to assess the need for such a course, and if found necessary, the way in which it can be developed.

Public Private Partnerships in Audit

- Mandates, and workload, of SAIs is steadily increasing.
- SAIs have historically partnered with private sector professional audit firms.
- One key issue - lack of knowledge and interest in the private audit firms to perform public audits (e. g., focus on IFRS as opposed to IPSAS, ISA rather than ISSAI).
- NZ has out-sourced up to 50% of its audit work to private firms.
- COA in the Philippines also intends to work more closely with the private sector audit firms.
- Main conclusions on the public private partnerships: (a) lots of opportunity to collaborate, (b) enhance people capability, (c) ensure transparency, (d) design monitoring arrangements, (e) need high quality standards



Issues in public-private cooperation

Regulate SAIs to enter into PP audits?

Performance audit vs financial audit

CSO participation to bridge gap between governments and citizens

"While we can delegate the audit work to the private sector, we can't delegate responsibility and accountability"

"Auditing as a not very appealing profession for young people"

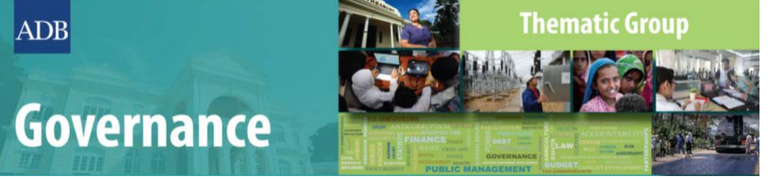
Comparative Staffing

- The World Bank has over 80 full-time FM staff in the Asia Pacific region, and even the Delhi office of the World Bank has 11 FM staff.
- ADB currently has 4 full-time staff in the FMU, 4 FMS in the front offices of regional departments, and some 10 staff who are performing FM and other duties in sector divisions.
- WB is engaged in a big way in PFM reform – one pipeline PFM project is for $500 million in South Asia.

ADB's Future Strategy

- ADB should strengthen its PFM staff skills, and lead the PFM reform efforts in its members. A center-piece will be IPSAS adoption. This should become a core part of the dialogue on PFM reform, and ADB should demonstrate its capacity to support member countries.

- There are a number of ongoing governance interventions by the World Bank, and ADB can strengthen collaboration with the World Bank.



Q & A