PUBLIC PRIVATE PARTNERSHIPS ON PUBLIC FINANCIAL MANAGEMENT REFORMS IN ASIA
Opportunities and Lessons
May 2017
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Opportunities and Lessons

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Financial Reporting and Accountability Unit
Governance Global Practice
THE WORLD BANK

Vice President  Jan Walliser
Senior Global Practice Director  Deborah Wetzel
Practice Director  Edward Olowo-Okere
Managers  Fily Sissoko and Roberto Tarallo
Task Team Leaders  Jiwanka Wickramasinghe and Rajeev Swami
“Accountability and transparency drive trust. At a time of low public trust in institutions, this timely study reinforces the need for stronger public financial management (PFM) across fast-growing South East Asia and the Pacific economies. While identifying the vital role the accountancy profession plays in supporting and encouraging PFM, particularly in implementing accrual-based reforms, perhaps the most important message of this study is that reform can be implemented faster when there is genuine cross-sector collaboration. Now is the time for PFM reform-minded change agents in both the public and private sector to reach out and work together. There is a clear mutual and national interest in doing so, but also the public interest demands it.”

Fayez Choudhury, Chief Executive officer, International Federation of Accountants (IFAC)

“Congratulations to the World Bank on an excellent study on ‘Public Private Partnerships on Public Financial Management (PFM) Reforms’ which is timely and appropriate. The case studies in this publication are very useful examples of public financial management reforms taking place in some jurisdictions with the involvement of the private sector and Professional Accountancy Organizations (PAOs). This study will no doubt encourage collaboration between PAOs, especially with regard to sharing best practices and also feeds in well to IFAC’s initiatives on public sector reforms through PAOs. It is a study that provides unique examples and shows opportunities which can offer invaluable guidance to the private sector, PAOs, and the public sector in traversing the journey of public sector reforms which will have a significant impact on the prosperity of nations.”

Arjuna Herath, Chairman, Professional Accountancy Organization Development Committee, IFAC, Past President of the South Asian Federation of Accountants and Past President of the Council of the Institute of Chartered Accountants of Sri Lanka
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Abbreviations and Acronyms

AAIPI  Association of Public Sector Internal Auditors (Indonesia)
AASC  Accrual Accounting Steering Committee (Malaysia)
AATSL Association of Accounting Technicians of Sri Lanka
ACCA  Association of Chartered Certified Accountants
AcGD  Account General’s Department (Malaysia)
AGD   Auditor General’s Department (Sri Lanka)
ANAO  Australian National Audit Office
APFASL Association of Public Finance Accountants of Sri Lanka
ASC   Accounting Standards Committee
ASEAN Association of Southeast Asian Nations
ASEANSAI Association of Southeast Asian Nations Supreme Audit Institutions
AuSC  Auditing Standards Committee (Pakistan)
BPK   Badan Pemeriksa Keuangan (Indonesia’s Supreme Audit Institution)
CA    Chartered Accountant
CASL  Institute of Chartered Accountants of Sri Lanka
CEO   Chief Executive Officer
CFO   Chief Financial Officer
CIMA  Chartered Institute of Management Accountants (UK)
CIPFA Chartered Institute of Public Finance and Accountancy (UK)
CMP   Change Management Plan
COSO  Committee of Sponsoring Organizations of the Treadway Commission
EAP   East Asian and Pacific region
ERP   Enterprise Resource Planning
FABS  Financial Accounting and Budgeting System (Pakistan)
FAM   Financial Audit Manual
FMIS  Financial Management Information System
GASAC Government Accounting Standards Advisory Committee (Malaysia)
GDP   Gross Domestic Product
GFMAS Government Financial and Accounting Management System
GICS  Government Internal Control System
GTP   Government Transformation Program
IAASB International Auditing and Assurance Standards Board
IAD   Internal Audit Department (Pakistan)
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>IAI</td>
<td>Institute of Indonesia Chartered Accountants</td>
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<td>IAMI</td>
<td>Institute of Indonesia Management Accountants</td>
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<tr>
<td>IAPI</td>
<td>Institute Akuntan Publik Indonesia</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
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<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
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<tr>
<td>ICAI</td>
<td>Institute of Chartered Accountants of India</td>
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<td>ICAP</td>
<td>Institute of Chartered Accountants of Pakistan</td>
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<tr>
<td>ICMA</td>
<td>Institute of Certified Management Accountants (Sri Lanka)</td>
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<td>ICMAP</td>
<td>Institute of Cost and Management Accountants of Pakistan</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<td>IPSASB</td>
<td>International Public Sector Accounting Standards Board</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<td>ISAE</td>
<td>International Standards on Audit Engagements</td>
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<td>ISQC</td>
<td>International Standards on Quality Control</td>
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<tr>
<td>ISSAI</td>
<td>International Standard for Supreme Audit Institutions</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>LM</td>
<td>Line Ministry</td>
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<td>LSG</td>
<td>Local Self-Government</td>
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<tr>
<td>MA &amp; SRD</td>
<td>Management Audit &amp; System Review Department (Sri Lanka)</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MFRS</td>
<td>Malaysian Financial Reporting Standards</td>
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<td>MIA</td>
<td>Malaysian Institute of Accountants</td>
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<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>Malaysian Public Sector Accounting Standard</td>
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<td>MRC</td>
<td>Municipal Reforms Cell</td>
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<tr>
<td>NAM</td>
<td>New Accounting Model</td>
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<td>NED</td>
<td>Non-Executive Director</td>
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<tr>
<td>NEM</td>
<td>New Economic Model</td>
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<td>NMAM</td>
<td>National Municipal Accounting Manual</td>
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<td>NTP</td>
<td>National Transformation Program</td>
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<td>OAGP</td>
<td>Office of the Auditor General of Pakistan</td>
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<td>OBB</td>
<td>Outcome Based Budgeting</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>OBS</td>
<td>Opening Balance Sheet</td>
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<td>PAO</td>
<td>Professional Accountancy Organization</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PEMANDU</td>
<td>Performance Management &amp; Delivery Unit</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PIE</td>
<td>Public Interest Entity</td>
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<td>PIFRA</td>
<td>Project to Improve Financial Reporting and Auditing (Pakistan)</td>
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<td>PIPFA</td>
<td>Pakistan Institute of Public Finance Accountants</td>
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<tr>
<td>PRI</td>
<td>Panchayati Raj Institution</td>
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<td>PSAC</td>
<td>Public Sector Accounting Committee</td>
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<tr>
<td>PSASC</td>
<td>Public Sector Accounting Standards Committee (Sri Lanka)</td>
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<tr>
<td>PSTAC</td>
<td>Professional Standards and Technical Advisory Committee</td>
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<tr>
<td>SAD</td>
<td>Self-Accounting Department (Malaysia)</td>
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<td>SAI</td>
<td>Supreme Audit Institution</td>
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<tr>
<td>SAR</td>
<td>South Asia Region</td>
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<td>SECP</td>
<td>Securities and Exchange Commission of Pakistan</td>
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<tr>
<td>SLAAASMB</td>
<td>Sri Lanka Accounting and Auditing Standards Monitoring Board</td>
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<td>SLPSAS</td>
<td>Sri Lanka Public Sector Accounting Standards</td>
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<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
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<tr>
<td>SPAN</td>
<td>Sistem Perbendaharaan dan Anggaran Negara</td>
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<tr>
<td>SRI</td>
<td>Strategic Reform Initiative (Malaysia)</td>
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<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>ULB</td>
<td>Urban Local Body</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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Acknowledgments

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Executive Summary

The growing investment needs in the South Asia Region (SAR) and East Asia and Pacific Region (EAP) necessitate high quality public financial management in order to sustain the growth momentum and achieve the desired development objectives. As these regions operate within limited fiscal space for development, efficient public financial management is essential to achieve the best results for every dollar spent. However, challenges persist in implementing timely reforms in Public Financial Management (PFM), building ownership to drive reforms and strengthening capacity to implement, embed and sustain such reforms.

Global recognition of the growing role of private sector in development is evident. Private sector companies are initiating action to contribute to the Sustainable Development Goals (SDGs), for example building capacity of the public sector under SGD 16, which focuses on strengthening institutions of Governance and Accountability. The contours of corporate social responsibility are changing. It is now an opportune moment to leverage this expanded role of the private sector in the development agenda, and identify and explore the opportunities for the private sector to support the strengthening of PFM.

This PFM retrospective study uses a two-pronged approach. It illustrates examples of good practices of partnerships in financial management reforms between the public and the private sector and draws lessons learned from effective financial management reforms in the private sector in SAR and EAP. The study cites country specific examples through case studies from the following countries (listed in alphabetical order) India, Indonesia, Malaysia, Pakistan and Sri Lanka, where collaboration between the public sector and private sector have contributed to successful public financial management reforms. While exploring these various forms of public-private collaboration, it also looks at additional types of partnerships such as with peer institutions in other countries, development partners and regional groups.

The study identifies the enabling environment conducive to collaboration. Three significant factors pertinent to the cases are covered in detail, namely: (1) windows of opportunity; (2) leadership and change agents; and (3) the institutional environment. The development strategies of the governments covered in the cases, such as the New Economic Model of Malaysia, are considered as windows of opportunity for private sector involvement as they led to scaling up of PFM reforms and created the need to collaborate with the private sector to implement reforms. In particular, the following organizations and individuals stand out in the case studies as leaders and change agents that connect the public and private sectors to move the PFM reform agenda forward: Director, Department of Municipal Administration—state of Karnataka; a combination of high and working level champions of reforms from the Indonesian Ministry of Finance (MoF); the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and its public sector wing staff and council members; the Secretary General of the Treasury and the Accountant General in Malaysia; and the past and current Auditors General in Pakistan and Sri Lanka.

The study outlines potential entry points for the public sector to work in tandem with the private sector. Specific areas include: (a) financial reporting; (b) information systems; (c) internal control systems; (d) auditing standards and practices; (e) regulatory framework; (f) capacity building and professionalization;

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1 SAR and EAP are geographic groupings used by the World Bank. SAR comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. EAP comprises Cambodia, China, Hong Kong Special Administrative Region, Indonesia, Lao People’s Democratic Republic, Malaysia, Mongolia, Myanmar, Papua New Guinea, the Philippines, Singapore, Taiwan, Thailand, Timor-Leste, Vietnam, and the Pacific Island countries. The Pacific Island countries comprise Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Palau, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu.

2 The SDGs are an initiative of the United Nations: on September 25, 2015, countries adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. http://www.un.org/sustainabledevelopment/

3 The public sector is referred to as central and subnational governments as well as state owned enterprises. Private sector for the purposes of this report comprises enterprises not controlled by the government, including Professional Accountancy Organizations and their members.
Public Private Partnerships on Public Financial Management Reforms in Asia

and (g) governance and ethics. These areas are discussed briefly in the paragraphs below. This deeper understanding of opportunities for collaboration between the public and the private sector will provide valuable insights into how to design effective PFM reforms going forward in South and East Asia and Pacific regions SAR and EAP.

a. **Financial reporting:** The case studies analyze partnerships and lessons from the private sector in establishing and implementing accounting standards and the accounting standard setting process, successful implementation of information technology (IT) systems, and creating the overall control and risk management environment that underscores the quality of financial information. The success stories from Indonesia, Malaysia and Sri Lanka demonstrate effective collaboration with the PAOs in adopting and implementing International Public Sector Accounting Standards (IPSAS). The Malaysian Institute of Accountants played an active role in supporting the government’s move to accrual accounting, successfully nominating a former Accountant General to the International Public Sector Accounting Standards Board (IPSASB) to influence global thinking on standards and establishing a Public Sector Accounting Committee chaired by the Accountant General. The Malaysian Institute of Accountants also provided other technical support and extensive training. Similarly, a public sector standard setting committee established by CA Sri Lanka, which was chaired by the Auditor General at the time and comprised of CA members and Government officials, formulated accrual based public sector accounting standards aligned with IPSAS. The public sector wing of the Institute of Chartered Accountants, Sri Lanka, conducted training programs on the standards. The PAO in Indonesia contributed to the standard setting process by serving as a member of the Public Sector Accounting Standards Committee. PAOs could also play a direct role in improving the quality of state-owned enterprises (SOEs) that adopt private sector accounting standards. An integral role of PAOs, as showcased in the Sri Lanka case study, is to promulgate private sector financial reporting standards and to provide adequate training on these standards. These standards directly apply to commercial SOEs. Some PAOs also issue cost accounting standards that are applicable to commercial SOEs. PAOs could take this role a step further and conduct dedicated training programs on financial reporting and cost accounting standards for SOEs and their oversight bodies, such as Ministries of Finance.

b. **Financial Management Information Systems:** The study illustrates successful partnerships between the public and the private sector in Financial Management Information Systems (FMIS) with reference to the development and implementation of these systems. Private sector knowledge is transferred primarily via consultancy support and/or support from professionally qualified accountants with exposure to well-established private sector practices in this area. For example, implementation of the FMIS in Pakistan, Indonesia and the Indian State of Karnataka utilized private sector expertise for business process reviews, designing system specifications, and providing training to system users as well as supervising the development and implementation of the FMIS, including quality assurance.

c. **Internal Audit and Risk Management frameworks:** These frameworks are well established in the private sector. There are many lessons in these two interlinked areas that the public sector can draw upon from the private sector. Recognizing the value of collaborating with the private sector in this area, Indonesian internal auditors have collaborated with the Institute of Internal Auditors (IIA), an international professional association, to develop a quality assurance framework. The role of the accountant both in the public and private sector is expanding. They can and should be at the forefront in advising decision makers on risk management to help safeguard company resources. Internal and external auditors also have a role to play in providing an independent assessment of risk management practices. These core competencies on evaluating and improving risk management and internal control need to be developed. PAOs could contribute by including internal audit, internal controls and risk management as part of the curriculum of public sector courses offered by the PAO as well as conducting dedicated courses on these topics for the public sector. The Center for Risk Management Studies in Indonesia conducts risk management professional capacity building, which presents an opportunity to extend this training to the public sector.

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4 The International Public Sector Accounting Standards are a set of accounting standards issued by the International Public Sector Accounting Standards Board for use by governments and other public sector entities around the world in preparing their financial statements.
d. **Auditing standards and practices:** The case study from Sri Lanka highlights the role of PAOs in establishing trust between Supreme Audit Institutions (SAIs) and private sector audit firms. Trust is an essential element for SAIs to outsource audits to private auditors and to reach out to private auditors to build reform audit practices and build the capacity of SAIs. In Sri Lanka, the Auditor General is an ex-officio member of the Council of CA Sri Lanka and hence plays an active role in the work of the PAO. The PAOs in Pakistan are part of the Policy Board that drives the strategic direction of the Office of the Auditor General of Pakistan (OAGP). The partnerships that the SAIs in Sri Lanka, Pakistan, and Indonesia formed with private sector audit firms have exposed the SAIs to best practice audit methodologies and IT techniques; they have also received support to build their in-house capacity to use these tools. The partnerships established by public auditors, the Badan Pemeriksa Keuangan (BPK) in Indonesia, with the private sector contributed to that institution moving from a low level of computerization to state-of-the-art architecture in the last decade. Collaboration with the private sector contributed significantly to the modernization of the SAI in Pakistan. With support from a private sector audit firm, the SAI in Sri Lanka enhanced its methodology for SOE audits and gained knowledge in carrying out performance and investigative audits. There is an opportunity for other SAIs to form similar partnerships with the private sector in order to build capacity in advanced audit methodologies and gain knowledge about the latest information technology, such as online monitoring tools, data visualization and analytic tools that allow a real-time monitoring of audits and a deeper analysis of data and trends. PAOs are instrumental in strengthening the quality of members’ audits via self-regulation, working closely with the independent regulators, providing audit tool kits, and offering training opportunities to auditors. As some of these auditors carry out SOE audits, PAOs' work in this area contributes directly to the quality of SOE audits. SOE audits also present an opportunity for private sector audit firms to contribute towards improving the financial reporting practices of SOEs.

e. **Regulatory framework:** A strong, independent regulator must balance its oversight responsibilities with a proportionate approach that seeks the expertise of market participants. The regulator protects investors and markets through activities that include supervision, compliance, and enforcement. Simultaneously, the regulator aims to encourage a climate conducive to investment and business. Collaboration with key stakeholders, including PAOs, is important in achieving this balance. There are important lessons to be learned from the private sector on the value of a robust regulatory framework that underpins and drives financial management practices. The country examples show the relevance of the engagement of PAOs in policy level dialogue with the public sector, especially concerning significant changes to the PFM laws, as this contributes to the development of an appropriate framework. In Sri Lanka, Malaysia and Indonesia, PAOs are part of the advisory bodies, which ensures that they remain actively engaged with their government counterparts.

f. **Capacity building and professionalization:** Reforms have been sustainable when staff with the right competencies are in place. The results in PFM showcased in the case studies in Indonesia, Pakistan and Sri Lanka have a strong correlation to the public sector capacity building efforts in these respective countries. Case studies reflect instances where the public sector has successfully leveraged the core strength of the PAOs, i.e., providing professional training and certification, to build public sector capacity. The Institutes of Chartered Accountants of Sri Lanka, Malaysia and Pakistan have all signed Memoranda of Understanding (MoU) with the Chartered Institute of Public Finance and Accountancy (CIPFA) of the UK to offer the public sector access to relevant courses and explore gateways to membership. The Institute of Indonesia Chartered Accountants (IAI) has signed a MoU with the Institute of Chartered Accountants of England and Wales (ICAEW) to enhance the Chartered Accountant qualification. In Pakistan, two national PAOs partnered with the Office of the Auditor General to establish a dedicated training institute that provided training during the rollout of the government’s new FMIS.

g. **Governance and ethics:** The study outlines opportunities for the PAOs to contribute to enhanced Governance and Ethics in the Public Sector. In Sri Lanka, the Institute of Chartered Accountants issues the Code of Best Practice on corporate governance jointly with the Securities and Exchange Commission and has launched a corporate governance training program for directors which also

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5 The BPK is Indonesia’s Supreme Audit Institution.
applies to SOEs. There is an increased focus on Ethics in the recently revised curriculum for professional accountancy studies. Similar interventions could be made to support the public sector enhance its Governance and Ethical standards.

The study concludes that:

There is an opportunity for the public sector to draw on this knowledge and experience of the private sector to implement PFM reforms. Public private partnerships can take place in many forms, ranging from: (1) PAO engagement in public sector policy, activities, knowledge sharing and capacity building work; (2) outsourcing public sector work to the private sector; (3) public sector capacity building via advisory and consultancy support by private sector consultants; (4) professional accountants with private sector exposure recruited by the public sector; and (5) direct engagement with the public sector by private sector companies as part of their corporate social responsibility work and their contribution to the SDGs.

PAOs have also been a major conduit of knowledge in the case studies covered in the report. PAO engagement has been most successful when PAOs have: (1) the right institutional structure for dedicated support to PFM, such as the establishment of the public sector wing by CA Sri Lanka and dedicated public sector accounting standards committees set up by the PAOs in India and Sri Lanka; (2) the capacity to support the public sector, for example through the recruitment of staff with public sector experience and the involvement of members with public sector knowledge by CA Sri Lanka; (3) established close links with the public sector by representing the profession in committees and bodies set up by the Government, and also by raising awareness among senior public sector officials about the work of PAOs. Examples include the following, all of which have PAO representation: the Audit Board in Pakistan; financial reporting standard setting committees in Malaysia and Indonesia; the law reform committee and boards of regulatory bodies in Sri Lanka. Other examples include the involvement of the Auditor General of Sri Lanka as an ex-officio member of the PAO’s council, and the establishment of PIPFA in Pakistan as a partnership between the PAOs and the public sector; and (4) have reform minded, influential leaders in the PAO that engage with the public sector to influence policy and the pace and types of reforms.

PAOs have supported PFM reforms in a range of ways. The strongest areas of support from the PAOs showcased in the case studies have been in: (1) supporting the public sector to set and implement accounting standards by engaging in the standard setting process and providing necessary training to implement standards, as seen in all of the case studies; (2) offering professional and technical level qualifications to public sector accountants such as the PAOs in Malaysia, Pakistan and Sri Lanka; and (3) influencing policy dialogue by engaging closely with the public sector.

There is potential for greater engagement of PAOs to strengthen public sector PFM. One such area is dedicated support for the financial management of SOEs. This can be achieved by: (1) offering training programs to SOEs and their oversight bodies on financial reporting practices, cost accounting standards, risk management and corporate governance practices; (2) strengthening audit regulation, both self-regulation by PAOs and independent audit regulation to enhance the quality of SOE audits; and (3) supporting governments to develop robust corporate governance codes applicable to SOEs. Another potential area of support is to develop the internal audit capacity for risk-based audits and the capacity of audit committees by offering training programs drawing on private sector experiences. PAOs can also play a role in developing core competencies such as risk management skills in order for the public sector accountants to serve as strategic partners to decision makers and leaders. Training programs offered by PAOs are sustainable when they form part of a holistic public sector training strategy in which partnerships with PAOs are identified as a tool to implement the strategy.

The private sector has an impressive track record in implementing financial management reforms in a sustainable, effective and efficient manner. As demonstrated by the case studies, the private sector excels in the areas of: (1) implementing financial management information systems effectively; (2) using data analytic tools to generate reports for decision making and for auditing; (3) carrying out business process reviews and developing efficient procedures and robust internal control processes; (4) implementing risk-based internal and external audit methodologies and ensuring compliance with auditing standards;
and (5) establishing adequate legal frameworks that encourage accountability towards stakeholders. An effective channel of knowledge transfer from these private sector practices and the provision of training support to the public sector is through private sector consulting firms. Another example is the recruitment of professional accountants with private sector exposure. Furthermore, the private sector should expand its ‘Corporate Social Responsibility’ work to include direct support to the public sector on PFM.

**Challenges must be overcome when partnerships are being formed.** The cost of engaging with the private sector may seem formidable. This is particularly the case where private sector support is not sought in a structured manner and with no clear long-term plans to build sustainable capacity within the government. Another possible challenge is the resistance that may arise from public sector officials whose perception of the private sector is that it does not understand the public sector environment. The private sector should set up the foundation to build an awareness and understanding of the public sector and its practices and staff with the right skills and experience in order to win the trust of the public sector and support it.

**Successful partnerships have been built only when influential reform leaders and change agents have played an active role.** These risk takers and innovative thinkers of the public sector have opened the public sector to the knowledge and experience of the private sector. Change agents are often people and organizations with power and influence who hold top positions, either operating within a sector/subject of reform or working outside—such as civil societies and political leaders.

**The public and private sectors must seize the ‘windows of opportunity’ for collaboration.** Some windows of opportunity may appear on the surface to be ‘reform resistant’ events, but they can nevertheless serve as instigators or accelerators of reform in the long run. The study found that the public sector and the private sector were keen to explore the following windows of opportunity to strengthen collaboration in order to achieve reforms: (a) ending of the civil war in Sri Lanka which created political space for scaling up PFM interventions and thereby created the need to form public private partnerships to support these efforts; and (b) the economic crises in Pakistan and the Asian financial crises resulted in stronger development strategies which called for innovative ways of strengthening PFM, leading to greater collaboration with the private sector.

**Knowledge sharing forums can be a catalyst for partnerships in PFM reforms.** They are instrumental in creating awareness and interest by disseminating good practices in financial management from the private sector and sharing examples of successful public private partnerships and the enabling environments that support the creation of partnerships. The governments, regional accountancy organizations and individual PAOs have a role to play in establishing these forums. An example of such a forum is the Financial Reforms for Economic Development (FRED), a joint initiative of the Confederation of Asian and Pacific Accountants and the World Bank’s SAR and EAP. FRED illustrated how the public and private sectors can join forces to provide the general public with accurate reliable and credible financial information. Such forums create thought leaders who can influence and promote a new and effective approach to strengthen PFM via collaboration with strategic partners such as the private sector and peer institutions.
Public Financial Management (PFM) Retrospective Study

Opportunities for Partnerships and Lessons from the Private Sector
Regional Context

1. **The need for public investments is growing in Asia.** The increased vulnerability to natural disasters and food insecurity, the rising demand for new infrastructure, large urban agglomerations, and rapidly aging demographics contribute to this demand. Yet there is a decline in external demand, commodity prices have reduced, and fiscal deficits are high. Robust financial management practices are more important than ever as governments strive to ensure that every dollar is spent well to mitigate challenges and achieve development goals in a resource constrained environment. Effective public financial management (PFM) connects policy priorities with revenue collection, use of resources and sustainable service delivery, and is vital for achieving the World Bank’s strategic goals in SAR and EAP.

2. **The South Asia region is the fastest-growing region in the world and is aiming toward the next level of development.** Robust PFM systems can support this growth and help make it more inclusive. There is new political space that is opening doors for PFM reforms. Improving the quality of information on resources received by frontline service units, as well as the quality of outputs and outcomes, can enhance targeted interventions to support women, the poor, and the excluded. Sound management of assets and liabilities helps ensure value for money from public investments, along with careful attention to fiscal risks and debt. This can support the construction and maintenance of essential infrastructure needed for fast-growing economies, for fragile states recovering from conflict, and for mitigation and adaption strategies to environmental challenges, such as efficient water management and renewable energy.

3. **The East Asia and Pacific region has seen extreme poverty fall faster than in any other region, and prosperity has been shared.** One of the World Bank’s strategic pillars is to improve transparency and service delivery through robust PFM at the national and local government levels. Effective budget planning, predictability and control, accounting and reporting, and audit can ensure that policy priorities are achieved. These priorities include climate change mitigation, disaster preparedness, urban planning and financing, and essential services to reach and empower the poor and vulnerable. Sound revenue administration ensures that there are sufficient resources to address these priorities. The alignment of public and private sector reporting standards such as International Financial Reporting Standards (IFRS) based on accrual concepts contributes to a good foundation for state-owned enterprise (SOE) reform, including privatization and the use of public-private partnerships.

4. **The private sector plays an important role in fueling growth in the two regions.** The 2030 development agenda underpins global efforts to unlock new resources from the private sector and reshape its role as a partner in the development process. This agenda is re-framing corporate social responsibility and encouraging the public and private sectors to work together to advance the global sustainable development agenda. It is recognized, however, that for this to happen, governments need to create the right enabling environment and the framework for collaboration.

About the Study

5. **Sound PFM systems and practices are essential to support the growth momentum of SAR and EAP.** Effective PFM contributes to creating fiscal space for development and reducing fiscal risks, and ensures that resources are allocated for strategic priorities and are also made available to reach a high level of service delivery. PFM reforms have achieved a certain momentum across Asian countries. However, for reforms to be undertaken in a timely manner, a number of key challenges need to be addressed by public sector organizations. These include building ownership to drive reforms and building the capacity needed to implement, embed, and sustain those reforms, particularly given the scale on which many of the reforms have been undertaken. Heightened partnerships with the private sector, development agencies, and across countries can help overcome these challenges. It is an opportune moment to leverage the

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6 World Bank East Asia and Pacific Regional Strategy.
growing role of the private sector in the development agenda, and explore how the private sector can help to strengthen PFM. Private sector companies are initiating action to contribute to the SDGs. The contours of corporate social responsibility are changing. Of particular relevance to this study is the contribution of the private sector to SGD 16, which focuses on strengthening institutions of Governance and Accountability. One such example in Myanmar is General Electric, which has worked to build public officials’ capacity by supporting training on transparency and procurement practices.7

6. Against the backdrop mentioned above, the primary objective of this study is to identify opportunities for the private sector to support the strengthening of PFM. The study identifies:

* Opportunities for the public sector to partner with the private sector to influence policy and build PFM capacity in the areas of financial reporting, audit, accountability, regulatory framework, governance, and ethics;
* The enabling environment that contributes to successful private sector interventions; and
* Lessons learned from private sector experiences in implementing reforms that could help to improve PFM.

Aligned with these objectives, the study explores in depth the role that PAOs could play in providing sustainability to PFM reforms and their outcomes.

7. The secondary objective of the study is to identify other partnerships that the public sector can form—including with peers, development partners, and other international and regional organizations—for successful PFM interventions. The study draws on a political economy analysis and attempts to identify the contextual variables that have enabled successful reforms. The findings of the study are expected to inform the design of future PFM reforms in the specific areas covered by the report where partnerships with the private sector have had or have the potential to have the most impact and promote partnerships that enable successful reforms.

8. The study has identified country cases of successful PFM reform from across SAR and EAP. These cases are from India, Indonesia, Malaysia, Pakistan and Sri Lanka, and have been selected as they have benefitted from the involvement of the private sector (in different capacities and forms) and other partners in supporting the implementation of specific PFM reforms. They range from countrywide reforms to pockets of excellence (the case studies are presented in the order of countrywide reforms first, followed by pockets of excellence). The cases also highlight areas where the private sector has successfully implemented reforms and draw out the key lessons. While the PFM agenda, context, and challenges may differ from country to country, many of the desired outcomes are the same. These may include such measures or initiatives as the adoption of international standards, appropriate regulatory frameworks, the implementation of FMIS, a shift to accrual accounting, and the development of a more effective auditing capacity. These examples suggest that there are opportunities for countries to share and learn from each other’s experiences, thereby promoting a cross-fertilization of ideas and the development of common solutions, which should help to strengthen PFM reforms across the regions.

Opportunities for Partnerships in PFM Reform and Lessons from the Private Sector

9. The case studies illustrate various stages and ways in which private sector skills, professionals, and organizations can play a role in PFM in their countries. They explore and share ways in which collaboration in different settings has contributed to successful outcomes. The case studies also identify opportunities that are largely unexplored. Opportunities for partnerships arise at every stage of the reform process.

**Initiating reforms.** The private sector, including a country’s PAOs, could contribute to the policy dialogue process in the following ways:

- Building alliances with likely change agents such as the MoF, auditor general, and other senior public sector officials at the central and local levels;
- Carrying out thorough research and analysis to underpin the case for reform; and
- Creating a demand for the PFM agenda and thereby influencing the pace of reform.

PAOs have been given prominence in this study due to their contribution to the professionalization of accountants including the creation of frameworks for increasing integrity and skills and knowledge-sharing platforms to disseminate information across the public sector—essential elements for PFM reforms. Where PAOs are not active, the government may play a role in professionalizing public sector accountants generally with the support of development partners. The study identifies how development partners work successfully with the public sector through development policy lending, technical assistance, and knowledge-sharing activities to encourage governments to reform PFM. The study also describes how regional groupings such as the South Asia Federation of Accountants can collaborate with the private sector to update critical PFM methodologies and capacities.

**Designing and implementing reforms.** Opportunities exist for the public sector to draw on expertise and experience, including the hard and soft skills of the private sector, when designing and implementing PFM reforms. Successful examples include:

- Implementation of accounting and reporting standards and management of transformations in standards;
- Collaboration between the standard setting boards of private and public standards;
- Design and implementation of FMIS;
- Management of risks to achieve results;
- Practices of audit firms in using data analytics and conducting performance and forensic audits;
- Establishing a legal framework that encourages accountability to stakeholders; and
- Approaches to building the capacity of staff.

The cases also explore the foundations put in place by the private sector to ensure the success of their reforms. Some of the key conduits for transferring this knowledge to the public sector are the PAOs, professional accountants, and private sector consulting firms. Private sector companies also transfer knowledge directly to the public sector as part of their corporate social responsibility work.

10. **Challenges must be overcome when partnerships are being formed.** The cost of engaging with the private sector may seem formidable. This is particularly the case where private sector support is not sought in a structured manner and with no clear long-term plans to build sustainable capacity within the government. Another possible challenge is the resistance that may arise from public sector officials whose perception of the private sector is that it does not understand the public sector environment. The study includes successful examples where the private sector and, in particular, the PAOs have strived to build an awareness and understanding of the public sector and its practices and, in doing so, have:

- Partnered with international and local public sector capacity-building organizations;
- Created dedicated public sector subcommittees within the PAO; and
- Partnered with the government to create separate institutions for public sector accountants, external auditors, and internal auditors.

11. **The political economy can enable or hinder partnerships in PFM reform.** The study includes a political economy analysis that illuminates the contextual variables that enabled successful partnerships for PFM reforms in a particular geopolitical environment. Although there are possibly numerous political economy drivers, there were three significant factors that were pertinent to the cases covered, namely: (1) windows of opportunity; (2) leadership and change agents; and (3) institutional environment.
12. Firstly, exploiting windows of opportunity is one of the most important enabling factors not just for PFM reform but also for establishing partnerships for reforms, which has been the focus of this study. Some windows of opportunity may appear, on the surface, to be ‘reform resistant’ events (i.e., those which discourage reform), but they can nevertheless serve as instigators or accelerators for reform in the long run. The study identifies the following as windows of opportunity: the political space created for public private partnerships as a result of the ending of the civil war in Sri Lanka; the economic crises in Pakistan and Indonesia; and the New Economic Model of Malaysia. These events have led to the scaling up of reforms, thus creating a need for collaboration with the private sector to implement these reforms.

13. The second significant factor is leadership and change agents, which refers to both individuals and institutions. These are often people/organizations with power/influence who hold top positions, who operate either within a sector/subject of reform or work outside — such as civil societies and political leaders. They are often proactive, flexible, risk takers who are open to new ideas, coupled with the will and support to enact reform. The following stand out in the case studies as leaders and change agents that connect the public and private sectors to move the PFM reform agenda forward: the PAOs in Sri Lanka; the Secretary General of the Treasury and the Accountant General in Malaysia; and the Auditors General in Pakistan.

14. The third significant factor is the institutional environment, which includes the rules, norms, values, and capacity that determine the way people behave when instigating and sustaining partnerships for PFM reforms. The institutional environment within Institute of Chartered Accountants Sri Lanka is an example of an enabler for partnerships between the PAO and the Government.

15. Collaboration between the private sector and public sector in PFM reform has occurred in three principal ways:

- Outsourcing to or directly engaging private firms or consultants for particular functions or projects or to address immediate skills gaps;
- Sharing and adapting private sector approaches or tools to the public sector environment via private sector consultancy support or by recruiting professional accountants with private sector exposure; and
- Developing joint initiatives and relationships with PAOs, peer organizations, regional groups and other organizations which address longer term needs such as capacity building and professionalization.

The sections that follow describe the opportunities for the public sector to collaborate with the private sector, including PAOs, and other partnerships that are formed by the public sector. Good practices of the private sector that can benefit the public sector are also outlined below.

A. Financial Reporting

16. The case studies analyze partnerships and lessons from the private sector in establishing and implementing accounting standards, the accounting standard setting process, successful implementation of information technology (IT) systems, and the overall control and risk management environment.

17. Convergence has increased potential for knowledge sharing. Differences between the financial management environment of the public and private sectors have diminished in recent years with the alignment of reporting standards, or at least their underlying basis (e.g., accrual accounting), and the reporting architecture with regard to using similar or common platforms. The case studies provide examples of Asian countries such as Indonesia, Malaysia, and Sri Lanka that have either shifted or are in the process of moving to accrual-based reporting. Some countries such as Pakistan have also implemented FMIS based on SAP, Oracle or other platforms which are also widely used in the private sector. It is this diminution of differences that has now increased the potential for using or adapting private sector knowledge and methodologies in the public sector. In doing so, it has also resulted in recognition that private sector approaches in less obvious areas may also be applicable or useful. For example, IPSAS require governments to maintain registers of fixed assets and to apply appropriate accounting policies in their treatment. This has been done
in the private sector for a long time and specialized systems and software are used to both manage asset control and accounting treatment.

18. **Accounting standards are generally the norm for reporting in the private sector and are increasingly becoming a feature of PFM environments across Asia.** In the private sector, most countries have their own national standards or they follow International Financial Reporting Standards (IFRS® Standards). The impetus is the legal requirement to follow a set of standards, demands from shareholders, pressure from regulators, and the need to raise capital in the market. Similarly, it is important to create a strong legal basis for the public sector to develop and implement its own accounting standards. This can be achieved through the PFM laws and regulations in the country. Just as the private sector has an obligation to report to its investors, the public sector should report accurately and comprehensively to its citizens. Think tanks, PAOs, and other champions in the private sector have a responsibility to cultivate this demand at the central as well as local levels. PAOs can take the lead in establishing a public sector standard setting board or committee in countries that do not yet have such a modality. PAOs can thus facilitate the standard setting process in the public sector. Indeed, extensive collaboration and emulation of private standard-setting approaches is evident in countries such as Sri Lanka and Malaysia where accounting setting bodies include representatives of government, private firms, academic institutions, and PAOs. Lessons can also be drawn from the case study in India, where a PAO has helped in the preparation and adoption of an accounting manual at the local level of government. Accounting manuals can be a good baseline to put forward the policies on financial statements and develop uniformity.

19. **The standard setting process in the private sector, for both accounting and auditing, includes clear mechanisms and procedures to review and incorporate changes to existing international standards and adopt new ones as they are issued.** Similarly, the public sector needs to ensure that procedures are in place to identify changes in international standards and to review and reflect these changes in its own standards where appropriate or, where national standards are not in place, any manuals which prescribe the reporting requirements for government entities. In Pakistan, public sector reporting requirements are set out in the National Accounting Manual and are revised to reflect any changes. The Public Sector Accounting Standards Setting Committee in Indonesia issues national standards and reviews any changes in the IPSAS to determine their applicability.

20. **PFM laws should have clear timelines for reporting financial statements to parliament and for their examination by public accounts committees and the tabling of their reports.** Governments raise sovereign bonds in the market and global research shows there is a strong correlation between transparent reporting by following accounting standards and better sovereign debt ratings with a consequent reduced cost of debt. There is the potential for PAOs to conduct country-level research to establish the links between reporting and development and instigate policy debates around these topics to raise awareness among stakeholders. Strategically placed PAOs engage in dialogue with government authorities when important changes are being made to PFM laws and provide guidance on best practices. In all of the case studies, PAOs have achieved some level of engagement with the government. In a number of countries, such as Sri Lanka, Malaysia, and Indonesia, PAOs are represented on the advisory bodies and standard setters which ensures an active dialogue with their government counterparts and the opportunity for input to changes.

21. **Private sector accounting standards have undergone major transformation in some countries.** There are a number of lessons from the private sector processes to be drawn by the public sector that aspires to shift from cash to accrual-based accounting and to follow public sector standards, such as IPSAS or equivalent national standards. A key lesson is the pragmatic approach taken by leaders in setting realistic time frames and building the momentum for change. For example, Sri Lanka has transitioned from national standards to IFRS Standards and has invested heavily in awareness creation and capacity building to prepare the private sector for the transition. PAOs in Sri Lanka have played a noteworthy role in this process.

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8 International Financial Reporting Standards (IFRS Standards) is a single set of accounting standards, developed and maintained by the International Accounting Standards Board, the standard-setting body of the IFRS Foundation—a public-interest organization. Accounting standards present preparers of financial statements with a set of rules to abide by when preparing an entity’s accounts, ensuring standardization (source: IFRS website).
through a range of activities, including: conducting training for different user groups and industry-specific training; reaching out to other countries that follow IFRS Standards to share their experiences and training activities; creating forums for more advanced companies to share their experiences; establishing help desks; issuing detailed guidance notes; and offering e-learning and accreditation courses. Companies that have successfully implemented IFRS Standards have responded to this support and maintained a close connection with the PAOs and their auditors. This has been done by creating effective structures with steering and working committees that have focused attention on managing the transition, providing leadership from the top, and allocating adequate resources to build the technical knowhow and infrastructure, such as IT systems, to manage the change. PAOs in other countries could stand ready to provide similar support should the public sector decide to implement public sector standards. The public sector can also proactively seek appropriate external support. The Malaysian Institute of Accountants contributed significantly to the Government’s move to accrual accounting, successfully nominating a former Accountant General to the International Public Sector Accounting Standards Board, establishing a Public Sector Accounting Committee chaired by the Accountant General, and providing other technical support and extensive training activities. Similar support was provided by the public sector wing of the Institute of Chartered Accountants of Sri Lanka to formulate accrual-based public sector accounting standards aligned with IPSAS.

B. Financial Management Information Systems

22. A good financial management information system (FMIS) provides a solid base to generate accurate and comprehensive financial reports. This is recognized in both the private and public sectors, and PFM reforms across Asia have generally necessitated modifications or more substantial transformations of systems. The implementation of new FMIS by governments in Pakistan and Indonesia has provided the consolidated financial information required for external reporting and more responsive financial management. The implementation of an automated FMIS includes transforming IT platforms and implementing new software. Challenges include the following:

* Creating ownership by the users and beneficiaries;
* Developing and implementing the system on time;
* Introducing a sustainable system in terms of implementation and maintenance; and
* Introducing process and functional efficiencies.

Strong project management has been integral to the successful development and implementation of FMIS.

23. Successful FMIS implementations in the public sector have featured collaboration with the private sector. This was a key factor in the implementation of FMIS in Pakistan, Indonesia and across the Indian State of Karnataka. Private sector expertise has been sought in undertaking business process reviews, designing system specifications, and providing training to system users. Such expertise has also been solicited to supervise development and to provide quality assurance services for FMIS implementation. New professional finance and IT staff from the private sector are absorbed in the government’s public finance cadre and, in some countries such as Pakistan, the staff are integrated into centers of excellence in order to sustain the implementation and maintenance of the new FMIS. Human resource policies have been changed in Pakistan to recognize professional qualifications for recruitment and promotion in an attempt to attract and retain professional staff. Significant investments are made to train existing staff using private sector expertise. Master trainers have been created in Pakistan among existing staff and provided with special incentives, while structured training programs are designed to roll out training to all implementing units and, in some cases, across the various levels of government.

24. Cross-cutting features of the successful and timely implementation of FMIS in private sector companies are evident. These include commitment and leadership from the top—elements which the case studies also highlight as essential factors in similar implementations in the public sector. Examples from the Sri Lanka case study show that the chief financial officer (CFO) generally drives the process, with the company’s board of directors endorsing the concept at the outset. Extensive consultations take place
with the users and management in order to identify the requirements to inform system design and also during the vendor selection process. Another noteworthy feature is the establishment of full-time committees that include experienced and professional staff across user groups. These committees are in place from the initial design and development to the rollout of the system itself. Targets and milestones drive the implementation pace. Dedicated attention, commitment, and professionalism are salient features for timely implementation. PAOs in the country could play an important role in creating platforms for cross-fertilization of this knowledge between the public and private sectors.

25. **An FMIS can also provide a platform for management accounting and data analytics.** Companies use the IT platform and data analytic techniques to perform a thorough analysis of data to identify trends in expenditures, markets, and buying patterns; undertake customer profiling; and identify redundant processes. These in-depth and sophisticated analytics help make predictions regarding the future and provide a basis for decisions that lead to innovation and change. The public sector that invests heavily in FMIS should also use these systems as catalysts for change.

**C. Internal Audit**

26. **The work of internal auditors and the overall control framework contribute to the integrity of data reflected in financial statements.** The concept of internal audit is not well developed in some public sector jurisdictions, while in others the function of internal audit exists but the underlying methodologies and capacity are outdated and weak, and the number of auditors are insufficient for satisfactory coverage. This is a potential area for the public sector to collaborate with the private sector for quick results. Private sector expertise could be used to transform the role of the internal auditor from a mere ‘compliance’ function to a more value-added function, with the ultimate aim of improving processes. Some governments and companies such as in Sri Lanka have re-labelled their internal audit divisions to demonstrate this shift in focus: ‘Business Process Review Division’, ‘Management Audit Division’, and ‘Management Audit and System Review Division’ are a few examples of the rebranding of internal audit.

27. **Internal audit work is included in the assurance services provided by private audit firms.** Services provided by these firms can be used to build the capacity of public sector internal auditors and to develop internal audit manuals and methodologies. Using outsourced internal auditors, while retaining a core group in house to manage the outsourced auditors, is a phenomenon that is emerging in some private sector companies, as noted in the Sri Lanka case. This could be a solution to address the limited number of internal auditors in the public sector.

28. **To strengthen the impact of the work of internal auditors, audit committees approve internal audit plans in the private sector.** The more advanced audit functions also include risk management and governance aspects in these plans. Audit committees review the performance and findings of the internal auditors during their quarterly meetings and follow up on internal audit recommendations. The committees often call on management, external auditors, and internal auditors during these reviews. These private sector practices are featured in the Sri Lanka case study and are good practices that the public sector can also adopt.

29. **The study noted similar practices in internal controls in both the public and private sectors, thereby enhancing the opportunities for cross-fertilization of knowledge.** Public sector internal auditors in Indonesia as well as private sector organizations in Sri Lanka follow an internationally recognized framework such as that issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) when designing and assessing their control systems. In addition, some ‘Assurance Frameworks’ issued to auditors by PAOs or standard setting bodies specify that any assertions on the effectiveness of internal controls should be based on a framework such as COSO. The Indonesian internal auditors have collaborated with the Institute of Internal Auditors (IIA), an international professional association with global

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9 Audit committees consist of independent members; internal auditors and external auditors participate on invitation.

10 ‘Internal Control—Integrated Framework’.
headquarters in the USA, to develop a quality assurance framework to reach Level 3 of the Internal Audit Capacity Model (a model developed by IIA). To hold management accountable, a practice observed in the private sector is a quarterly self-certification whereby the senior management of the company confirms compliance with internal control procedures. This practice is described in the Sri Lanka case study.

D. Risk Management

30. Risk management is an integral part of the control framework. A professional accountant can and should play an important leading role in helping an organization with its internal controls and risk management. The modern day accountant is considered a strategic partner within an organization. He/she should be at the forefront in advising the decision makers on risk management to help safeguard company resources. This expanding role of the accountant applies to both the public and private sectors. Internal and external auditors also have a role to play in providing an independent assessment of risk management practices. In order to develop these core competencies on evaluating and improving risk management and internal control by public sector accountants as well as public sector internal and external auditors, risk management should form part of the curriculum of public sector courses of study. PAOs can be instrumental in conducting risk management seminars and courses tailored to the public sector. The Center for Risk Management Studies in Indonesia engages in leading risk management professional capacity building. The public sector can benefit from such training facilities.

31. Forward thinking companies take a more integrated approach to risk management. They align their internal processes, from planning and implementation to monitoring, to risk management concepts. These companies also address risk management in terms of sustainability. The work of accountants can encourage integrated behavior towards risk management via objective measurement, analysis and assurance, which underpin good decisions. Some of the tools used by accountants include the regular generation of management accounts to monitor budgets and analyze trends, scenario-based financial forecasts, and the control of unethical behavior via control procedures. A risk management culture is further inculcated in organizations through the following practices, as described in the Sri Lanka case study:

- Embedding risk management units and risk managers across the organization;
- Frequent assessment of risks and discussions at management and audit committee meetings;
- Regular reviews of risk mitigation plans and their implementation through internal and other technical audits; and
- Significant investments in building in-house knowledge of risk management concepts and keeping abreast of the latest developments.

External Audit

32. Audit practices in the private sector are aligned with auditing standards. It is common practice for private sector auditing standards, whether national or international, to be recognized in the laws of the country. An example is the Accounting and Auditing Standards Act in Sri Lanka. Quality of audit is further enhanced when audit firms with international affiliations are present in the country. These firms have access to global methodologies and tool kits that are aligned with professional auditing standards and may have more stringent requirements than those required by the country laws and regulations. Taking a cue from this, supreme audit institutions (SAIs) that aspire to adopt the International Standards for Supreme Audit Institutions (ISSAI) can work toward obtaining recognition for standards in their respective country’s audit act. In the interim, they can also work on harmonizing internal methodologies with the ISSAI and proceed with implementation where there is no contradiction with existing laws and regulations. The SAIs in Sri Lanka, Pakistan, and Indonesia enhanced their audit methodologies to align with ISSAIs with support from private sector audit experts.

33. SAIs audit SOEs in some jurisdictions. Commercial SOEs follow private sector standards; hence SAIs require knowledge of both private sector accounting standards and International Accounting Standards
(IAS® Standards) to audit SOEs in addition to knowledge of ISAs or national audit standards. Opportunities exist for SAIs to gain knowledge via the regular training that some PAOs offer on accounting and auditing standards and on audit tool kits. The SAI in Sri Lanka enhanced its audit methodology for carrying out financial audits in SOEs with support from private sector audit experts. Similarly, SAIs can partner with private sector audit experts to obtain access to best practice audit methodologies and IT tools and for capacity building of SAIs. SAIs may also rely on private audit firms to outsource some of the SOE audits.

34. **PAOs could play a key role in building trust between SAIs and private sector audit firms.** In some PAOs, as is evident in Sri Lanka, the auditor general is an ex-officio member of the Council of the Institute of Chartered Accountants of Sri Lanka and hence plays an active role in the work of the PAO. To strengthen the link, the Sri Lankan PAO influenced policy to ensure that an Auditor General is a professionally qualified chartered accountant. SAIs also play an important role in the audit standard setting committees. These interactions build relationships and create an environment which makes it easier for the SAI to reach out to PAOs and private audit firms. In countries where national audit standards have not been introduced, there may still be opportunities for PAOs to influence the public audit framework. In Pakistan, the Office of the Auditor General established a Policy Board which includes members from the private sector and PAOs.

35. **IT tools are used extensively by private audit firms to make audit processes more efficient.** Audit workflows are spread across the year to ease the pressure of audit, and web-enabled communication and collaboration tools are used for document exchange to facilitate this process. SAIs that work in highly decentralized environments may find such tools useful. The timeliness of audits is achieved via real-time monitoring of audit status using online monitoring tools. This process provides early warning signs of possible delays and facilitates quick mitigation measures. Data visualization and analytic tools allow a deeper analysis of data which helps identify trends. These provide greater insights that facilitate a more accurate risk assessment to plan audits. Some audit firms have created separate centers of excellence for carrying out data analytics. There is an opportunity for SAIs to partner with the private sector to gain knowledge of these latest IT tools. BPK in Indonesia moved from a low level of computerization to state-of-the-art architecture in the last decade as a result of partnerships with international development partners.

36. **SAIs are branching out to conduct performance and forensic audits in addition to the traditional financial audit.** The audit law in Indonesia explicitly includes performance audit within the remit of BPK. As these audits differ significantly in character, partnerships are formed between the SAIs and private sector experts to develop methodologies, knowledge, and specialized skills. Collaborating with PAOs and civil society organizations can greatly help in conducting performance audits. Private firms have dedicated teams with sector and industry knowledge to perform such audits. Specialists include accountants, engineers, IT specialists, economists, lawyers, and ex-regulators. Firms use cutting-edge data analytic tools to gain insights and understanding when performing such audits. Forensic audit is performed not only when a crisis arises but with the aim of preventing crises. These are structures and processes that can be considered by the SAIs when planning such types of audits.

37. **Collaborations with SAIs of other countries outside the region and the establishment of regional organizations of SAIs to garner cooperation have also yielded benefits in the development of capacity, frameworks, and standards.** Regional groupings such as the Association of Southeast Asian Nations (ASEAN) Supreme Audit Institutions promote ongoing cooperation in sharing knowledge and experiences and addressing common issues, challenges, and constraints. Cooperation with the SAIs of more advanced countries has comprised peer reviews, secondments and exchanges, including in specific fields such as performance audits. This has been an active form of collaboration in a number of countries including Sri Lanka and Indonesia. Such collaboration provides access to expertise specific to the public sector environment and offers opportunities to learn from the experiences and approaches of SAIs that have addressed similar issues.

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11 The model audit laws developed by UNDP and ACCA recommend that the Auditor General possesses relevant higher educational qualifications in order to qualify.
38. SAIs may be empowered under the relevant legislation to outsource audit work to private firms where the appropriate processes and mechanisms are in place to provide oversight, quality control, and management. This possibility has been enacted in a number of countries such as Sri Lanka and Indonesia although extensive outsourcing may not yet have occurred. For public auditors to be able to rely on private sector auditors, it is important for the private auditors to equip themselves with the right skill sets and understanding of the public sector environment. These factors will be taken into account in the selection process. Private auditors must also recognize the public dimension which informs the audits and broadens the mandate beyond the standards which apply in the private sector. This may include compliance with statutory legislation, efficiency, and probity. Some audit firms have partners and staff who specialize in public sector skills and experience. Public auditors need to institute proper selection processes which may include competitive tendering or other methods of allocating audit work and agreeing on fee structures. Proper quality assurance review processes are important for the public sector to obtain the right assurance on the quality of the work of private auditors. PAOs and regulators can play a role in establishing independent and self-regulation processes to ensure that audits carried out by private sector auditors can be relied upon by SAIs. Audit firms can also have their own audit quality assurance review processes.

E. Regulatory and Accountability Framework

39. A country’s regulatory framework governs the level of accountability. In some countries, the Companies Act, which forms the backbone of the legal framework of the private sector, holds directors personally accountable for complying with the act and the company’s articles of agreement. For failure to submit company financial statements, every director of the company who is in default is liable to a fine on conviction. In addition, the Companies Act would generally specify shareholder rights and the corresponding reporting obligations. If the country has a corporate governance code, this will also stipulate reporting requirements in greater detail while the listing rules set out more stringent requirements on reporting for public quoted companies. Financial institutions have dedicated laws that govern their reporting requirements. In some countries such as Sri Lanka, regulators are legally empowered to impose administrative sanctions against infringements of standards and relevant rules and regulations. Similarly, sound laws and strong regulators such as public accounts committees are required in the public sector in order to also create an environment that demands accountability. Such committees need the support of strong secretariats and have, at times, reached out to experts in the private sector to carry out staffing and training needs analyses and to provide staff with training designed to enhance their research capacity.

40. A strong independent regulator must balance its oversight responsibilities with a proportionate approach that seeks the expertise of market participants. The regulator protects investors and markets through activities that include supervision, compliance, and enforcement. Simultaneously, the regulator aims to encourage a climate conducive to investment and business. Collaboration with key stakeholders, including PAOs, industry groups, business councils, and the accounting standard setter, is important in achieving this balance. In Sri Lanka the President and council members of the Institute of Chartered Accountants hold ex-officio positions in key regulatory bodies. These bodies include the Securities and Exchange Commission, which regulates public quoted companies and the Sri Lanka Accounting and Auditing Standards Monitoring Board, which regulates the accounting and auditing practices of public interest entities (Strategic Business Enterprises). Members of the regulator’s board generally bring diverse experience and expertise and may come from the accounting profession, business community, other regulators, and government institutions. In developing guidelines and fulfilling its role, the regulator generally establishes clear consultation processes that include the opportunity for policy submissions by stakeholders. These submissions may also be important where the regulator develops codes of practice for certain industries to guide industry behavior. Responsibility for audit regulation may lie with the corporate regulator or with an independent oversight board established for that purpose. These responsibilities, which may include registration and inspection of audit firms, setting standards, and reporting, aim to ensure audit quality and independence.

41. The audit committee is an integral part of the governance and accountability framework of a company. The majority of the audit committee’s members are independent of the operation under consideration. Audit committees are generally governed by a charter and meet quarterly. The audit committee
report, which includes the areas covered in the meeting and attendance by members over the year, is disclosed in the annual reports of some companies. Audit committees review the internal audit, risk, and external audit reports. The public sector can also benefit from independent audit committees. Such committees can also be established with the help of PAOs. In Sri Lanka audit and management committees have been established in ministries, departments, and agencies in the public sector and meet at least once every quarter to scrutinize both internal and external audit reports, as per circular instructions of the Government. The committee is chaired by the head of the unit and the members comprise the chief accountant and internal and external auditors.

42. Accounting and auditing standard setting processes for the private sector are embedded in legislation in most countries. Statutory committees are appointed to drive the process; their boards may include leading members of the accounting and auditing professions, as well as representatives of industry, who can share their technical expertise and knowledge of best practice. Private sector standard setting processes are fairly structured and have been ongoing for many years in the countries reviewed. In some cases, the standards issued for the private sector may also apply to commercial SOEs, including Cost Accounting Standards issued by private sector PAOs.

43. In countries where the public standard setting processes are not well established, the same proven processes of the private sector can be used. These countries can consider drawing on the expertise of existing statutory committees to the extent possible. In the countries examined, PAOs have played a key role in strengthening the standard setting processes of the public sector. In some instances, these committees have been set up as committees of the PAO with representation from the public sector and benefit from the knowledge and resources of the PAO. In Sri Lanka, the Institute of Chartered Accountants has established a public sector wing which issues public sector standards jointly with the Ministry of Finance. The Accountant General’s Department in Malaysia set up the Government Accounting Standards Advisory Committee, which comprises members from various professional accountancy bodies including the Malaysian Institute of Accountants. PAOs can lobby for statutory recognition for public sector standard setting committees.

F. Capacity Building and Professionalization

44. Successful reforms in both the private and public sectors have been possible when the right staff have been in place. Reforms need support from both professional and technician-level staff. Capacity building has proved a challenge for all of the Asian countries implementing substantial PFM reforms and particularly for those that have decentralized their service delivery and fiscal responsibility. Companies showcased in the Sri Lanka case study that have successfully implemented reforms have ensured that their human resource strategies enable them to create appropriate staffing positions and attract and retain staff with the right skill sets to implement and sustain reforms. These strategies also support the concept of continuous learning and invest heavily in staff training. Some companies have schemes to sponsor professional membership and examination fees with the aim of building a pool of professional staff. Similarly, long-term human resource strategies are required in the public sector to create skilled positions and attract and retain the right people. Such multipronged strategies have been developed in a number of countries. For example, the Indian State of Karnataka has included the creation of a specialized accounts cadre which recruits graduates and experienced consultants as one element of its HR strategy. Similarly, the implementation of accrual accounting in Malaysia led to the creation of new accounting departments and functions in line ministries and over 300 new positions.

45. A core activity of PAOs is the provision of professional training and certification to members. Many PAOs partner with educational institutions, including colleges, universities, and training institutes, to support the development of their curricula and to ensure that graduates have the requisite skills to undertake the professional training courses offered by the PAO. They may also promote the profession as an attractive career path for graduates and formalize graduate recruitment strategies. Partnerships with universities can also be undertaken to jointly publish studies that contribute to policy debate and discussion.
46. **PAOs can play an active role by introducing professional courses of study and qualifications specifically for the public sector.** This can be done by establishing affiliations with international professional accountancy bodies and by bifurcating and modifying their existing courses to offer a pathway to either a private or dedicated public sector qualification. The Institutes of Chartered Accountants of Sri Lanka, Malaysia, and Pakistan have all signed Memoranda of Understanding with the Chartered Institute of Public Finance and Accountancy of the United Kingdom (UK) in order to offer the public sector access to relevant courses of study and explore gateways to membership. In the absence of a dedicated public sector qualification, PAOs can introduce course content relevant to the public sector and accredit training providers to attract and educate students in courses which create interest in public sector careers. It can also be argued that a chartered accountant can serve both the public and private sector. The Institute of Indonesia Chartered Accountants has signed a Memorandum of Understanding with the Institute of Chartered Accountants of England and Wales to enhance the Chartered Accountant qualification, thus providing a sound foundation for accountants to serve both the private and public sectors. The study also found PAOs partnering with Ministries of Higher Education to propagate PFM education in the curricula of higher education institutions such as universities.

47. **Technical-level skills are also relevant to the public sector.** PAOs can also offer technician-level training by introducing a dedicated technician-level qualification, providing intermediary certifications along the way to the professional qualification, or supporting institutes already offering accounting technician training and accreditation. The Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan partnered with the Office of the Auditor General to establish a dedicated training institute for accounting technicians in the public sector. This partnership provided integral training during the rollout of the Government’s new FMIS to provinces and line ministries.

48. **PAOs require appropriate structures which focus on the public sector.** In each case study country, PAOs have organized themselves to provide dedicated support to the public sector. This has been achieved either by forming subcommittees with a dedicated focus on the public sector, active participation in committees set up by the public sector, or by setting up a dedicated body/institute governed by the PAO or jointly with the government, which caters to public sector accounting and financial management requirements. Through these structures, PAOs can offer training courses on relevant topics. Continuing Professional Development should be mandatory for both professional public sector accountants and accounting technicians, and PAOs can offer the courses needed to satisfy Continuing Professional Development requirements. To meet the challenge of decentralized environments, IT-based learning and the establishment of regional hubs or offices of the PAO can be considered.

49. **PAOs can play an ongoing facilitating role by establishing forums for exchanging ideas and knowledge by public sector practitioners and enabling the formation of networks and relationships that cut across departmental lines.** The public sector culture and the existence of ‘silos’ may prevent those lessons from being disseminated across the public sector. In addition, public sector organizations may tend to be large and unwieldy and not be good at sharing knowledge across departmental lines. While the MoF or SAI may sometimes provide a central coordinating role in managing PFM reform, these organizations tend to have a narrower role and a particular agenda and this remit may only exist for the duration of a particular project.

### G. Governance and Ethics

50. **A governance code sets the stage for good governance practices for corporates.** Ideally, a code should be mandatory and enforceable by law. Even where the code is voluntary, selected provisions are stipulated as mandatory in the listing rules and the Companies Act in some countries. It is also noted that some companies disclose their level of compliance and reasons for deviation even where the codes are voluntary. A corporate governance code generally includes guidance on the following:

* The board of directors and chief executive officer (CEO), composition of the board, board balance, appointment and reelection, performance appraisal of the board and CEO, supply of information to the
board, disclosure of information with respect to directors, directors’ remuneration levels, and procedures and disclosures on remuneration;

* Relations and communication with shareholders and other stakeholders, conduct of meetings;

* Shareholder and other stakeholder voting;

* Accountability and audit including financial reporting, internal control, audit committee, code of business conduct and ethics, and corporate governance disclosures; and

* Sustainability reporting.

51. There is an opportunity for PAOs to play a part in developing or updating such governance codes for both the public and private sector. For example, as in the case in Sri Lanka where the Institute of Chartered Accountants issues the Code of Best Practice on corporate governance jointly with the Securities and Exchange Commission, PAOs can join forces with the regulators to issue the corporate governance code. Such a code can also be relevant to SOEs and there is potential for PAOs to partner with the government/SOE oversight bodies to develop a governance code for SOEs. The code would need to ensure the following:

* A transparent process for selecting directors, disclosure of details of newly appointed directors to the shareholders/public, and annual disclosure of information of all directors including the nature of expertise in areas relevant to the SOE and the percentage of board meetings attended;

* The formulation and implementation of a sound business strategy;

* The CEO and the management team possess the skills, experience, and knowledge to implement the strategy;

* Directors receive adequate training;

* Clear and timely communication with the public including disclosing all proposed material transactions, which if entered into, would materially alter/vary the net assets base of the SOE; and

* Timely and comprehensive reporting for decision making and to set the stage for a sound environment in which SOEs can operate efficiently and in a transparent manner and thereby reduce the fiscal risks of the government.

There is an opportunity for PAOs to spearhead training for SOEs to meet the requirements under such a governance code. The Institute of Chartered Accountants of Sri Lanka launched the corporate governance training program for directors which is relevant for directors of SOEs as well.

52. The ethical requirements for professional accountants have assumed increasing significance against the backdrop of corporate scandals and illicit financial flows which may be indicative of deeper problems. Professional accountancy and technician-level courses cover the elements of ethics, and some PAOs have strengthened their focus on ethics in their updated curriculums. PAOs have codes of ethics for their members and enforce these through disciplinary processes and ethics committees that include independent members. The public sector will benefit from having finance professionals and technicains bound by a code of ethics. To this end, public sector accounting qualifications and public sector 'Accounting Services' can incorporate a code of ethics, and there is an opportunity for PAOs to partner with the public sector in designing and implementing this framework.
Case Studies
Sri Lanka

PFM Reform during Political Transition
About the Case Study

53. The case study explores key PFM reforms undertaken by the Government of Sri Lanka, collaboration with the private sector during the reform process, and good practices including examples of similar reforms in the private sector. Five aspects are discussed: (a) financial reporting; (b) audit; (c) the regulatory and accountability framework; (d) capacity building and professionalization; and (e) governance and ethics. The case study also explores the shifts in the political economic context of the country that have created the political space for PFM reform.

Country and Sectoral Context

54. Sri Lanka is a lower-middle-income country with a total population of 20.7 million and a per capita gross domestic product (GDP) of US$3,811 in 2014. It underwent a civil war spanning 26 years, ending in the military defeat of the Liberation Tigers of Tamil Eelam by the Sri Lankan state in May 2009. Direct and indirect costs of conflict through additional expenditures, losses in physical and human capital and foregone investment have been estimated to be equivalent to over 5 percent of GDP per year during the period 1978–2005. Since the end of the military conflict, Sri Lanka has achieved remarkable performance in terms of growth and poverty reduction. The country has achieved the Millennium Development Goal (MDG) target of halving extreme poverty and is progressing well toward meeting most of the other MDGs, thus establishing itself as a role model in South Asia.

55. The end of the civil war and specifically the year 2009, signaled an important window of opportunity for reform in Sri Lanka. The ending of the war created space for the Government to focus on long-term strategic and structural development challenges. The national development strategy at the time identified specific targets for achieving the MDGs ahead of time; targets for rapid economic growth and a change in the structure of the economy to a modern, environmentally friendly and well-connected rural-urban economy. These ambitious goals—combined with the increased demand for making up the investment backlogs in infrastructure development and for improving the quality and access to public services—created a need to improve PFM systems to make the most efficient and effective use of the Government’s limited financial resources. In this post-war period, the Government transitioned to a middle-income country status and was keen to have systems that were commensurate with the new status. As a result, the Government embarked upon a series of interconnected initiatives to strengthen its public expenditure management systems and processes.

56. The year 2015 marked a major political transition in Sri Lanka. A new President and a new coalition Government were appointed on a platform of good governance. Following presidential and legislative elections, the Government has set out an ambitious agenda for Sri Lanka, with the overarching goal of supporting job creation in the private sector, improving governance, advancing the country’s global integration, enhancing human development and social inclusion, and reaching upper-middle-income status in a few years. A constitutional amendment was subsequently adopted which reduced the powers of the presidency, introduced a largely parliamentary form of government, and strengthened autonomous oversight commissions and institutions for various aspects of the public sector including the Auditor General’s Department (AGD).

57. Several other important policy changes have aimed at strengthening governance and transparency. Some of the concrete steps taken towards policy reform include enacting the Right to Information legislation, drafting a legislation to establish an independent National Audit Office and drafting legislation for PFM in order to enhance the regulatory environment and authority for PFM. The Government’s commitment to reforming PFM at the policy level has been further demonstrated by the recently approved Development Policy Financing provided by the World Bank, which supports enhanced transparency and public sector

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management and improved fiscal sustainability, as well as the International Monetary Fund’s Extended Arrangement which supports a set of reforms under six pillars including the PFM reform pillar.

58. A number of other PFM reform initiatives have been implemented in the recent past or are currently under way to modernize the PFM framework. These include: the automation of revenue administration and treasury functions; drafting of a Public Finance bill; new financial regulations and manuals; drafting of an Audit bill; capacity building of the staff of the AGD to oversee the Government’s use of public funds; introducing guidelines and practices to strengthen public investment management; and strengthening the sectoral planning processes.

Background of the Accountancy Profession

59. The accountancy profession in Sri Lanka comprises five professional accountancy organizations: the Institute of Chartered Accountants of Sri Lanka (CASL), the Institute of Certified Management Accountants (ICMA), the Association of Accounting Technicians of Sri Lanka (AATSL), the Chartered Institute of Management Accountants UK (CIMA), and the Association of Chartered Certified Accountants UK (ACCA). The CASL and ICMA have been incorporated by Acts of Parliament, whereas the AATSL is a subsidiary of the CASL. The CIMA and ACCA are branches of UK accounting bodies with a significant presence in Sri Lanka. Each professional accountancy organization offers its own qualifications. The CASL and ICMA are members of the International Federation of Accountants (IFAC), and the AATSL is an associate member. The two UK-based organizations are also IFAC members.

60. The CASL has the largest student and member population with over 36,000 students and 4,300 members. It acts as both an examining body for certifying CA qualifications and the licensing authority for its members engaged in public auditing practice. The CASL is the only professional accountancy body authorized to issue practicing audit certificates, and only its members holding a practicing certificate are permitted to audit public interest entities (PIEs).

61. The CASL has positioned itself in many ways to influence policy decision. As a result, it plays a pivotal role in the formulation of policies and legal frameworks related to corporate governance, tax, auditing, and financial reporting. It has diversified its role as a PAO by establishing strong links with the public sector. Its strong presence in law reform committees of the Government enables it to influence regulations and policies relevant to both public and private sector financial management and governance. It holds ex officio positions in key regulatory bodies including the Securities and Exchange Commission, which is the regulator for public quoted companies, and the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), the regulator providing oversight for financial reporting and auditing practices of PIEs. This partnership allows for enhanced oversight by the regulators, better alignment of regulatory requirements with financial reporting requirements, and a reduction in the cost of compliance leading to enhanced compliance.

Institutional Setup at the Institute of Chartered Accountants of Sri Lanka (CASL) to Support the Public Sector

- Active presence of the CASL in key committees, commissions, and boards in the public sector to influence policy. For example, representation in: law reform committees, Securities and Exchange Commission—the regulatory Board for the accounting and auditing practices of PIEs;
- Setting up an Association of Public Finance Accountants of Sri Lanka under CASL comprising members of the public sector;
- Establishing a public sector accounting standards committee; and
- Appointing the Auditor General as an ex-officio member of the council.
62. Close ties with public audit have been developed by the CASL and the auditor general is an ex officio member of its council. Leveraging its expertise in setting private sector accounting and auditing standards, the CASL is deeply engaged in setting public sector accounting standards. To build capacity in this sector, the CASL has established a public sector institute called the Association of Public Finance Accountants of Sri Lanka (APFASL) which is supervised by the CASL and benefits from its resources.

Key Reform Areas in the Public and Private Sectors and Partnerships Formed to Drive Reforms

A. Financial Reporting

A.1 Accounting Standards

63. The CASL has issued 10 Sri Lanka Public Sector Accounting Standards (SLPSAS) jointly with the MoF. A gradual approach was followed by issuing four public sector standards in 2009\(^{13}\) followed by a further six in 2010.\(^{14}\) The Public Sector Accounting Standards Committee (PSASC) has identified a further 10 standards for adoption in the near future. The SLPSAS are in line with the corresponding IPSAS contained in the bound volume of 2009 issued by the International Public Sector Accounting Standards Board (IPSASB). The SLPSAS are designed to apply to the General Purpose Financial Statements of all public sector entities that adopt the accrual basis of accounting. These include universities, statutory boards, and local government authorities (municipal councils and *Pradeshiya Sabhas*). Ministries and departments presently operate on a cash basis and do not produce financial statements. The country’s consolidated financial statements are prepared according to cash basis IPSAS but modified to introduce aspects of accrual reporting. The MoF has now embarked on a journey to shift ministries and departments to accrual accounting.

64. The Minister of Finance and Planning has concurred that the provisions of the Finance Act will apply to statutory boards (that is, noncommercial public corporations) which should proceed with the implementation of the standards. Circular instructions issued by the MoF have accordingly directed local authorities to follow the SLPSAS and the auditor general has committed to checking compliance.

65. The CASL’s public sector wing has led a number of training programs on the SLPSAS. With consultancy support from the Chartered Institute of Public Finance and Accountancy UK (CIPFA), it established a pool of trainers who were also the champions for implementation in their own organizations. It supported testing the implementation through pilots conducted in a few authorities. The APFASL recently launched the Best Annual Report and Accounts Awards for the Public Sector to encourage entities to prepare financial statements in accordance the SLPSAS. The key results achieved in public sector financing reporting as a consequence of CASL’s involvement are shown in Box 1 on the following page.

66. While the concept of public sector standards is fairly new in Sri Lanka, the private sector standards are in full compliance with the IFRS Standards.\(^{15}\) The decision to converge with IFRS Standards

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\(^{13}\) SLPSAS 1—Presentation of Financial Statements  
SLPSAS 2—Cash Flow Statements  
SLPSAS 3—Accounting Policies, Changes in Accounting  
Estimates and Errors  
SLPSAS 4—Borrowing Cost  
\(^{14}\) SLPSAS 5—The Effects of Changes in Foreign Exchange Rates  
SLPSAS 6—Events after the Reporting Date  
SLPSAS 7—Property, Plant & Equipment  
SLPSAS 8—Provisions, Contingent Liabilities & Contingent Assets  
SLPSAS 9—Inventories  
SLPSAS 10—Revenue from Exchange Transactions  
was announced in 2009 with an effective date of 'financial periods starting January 2012'. This significant transformation in accounting standards was supported by the PAOs through continuous awareness-building sessions, a series of training sessions tailored to different user groups, IFRS accreditation courses, a help desk created by the CASL, and the issuance of guidance notes on IFRS implementation.

67. The legal framework supports the enforcement of accounting standards. The Accounting and Auditing Standards Act requires all PIEs\textsuperscript{16} to prepare financial statements in accordance with the SLP-SAS and has appointed the SLAASMB to review the financial statements of PIEs for compliance with the standards. Under the act, the SLAASMB is empowered to impose appropriate administrative sanctions for infringements of standards and relevant rules and regulations.

68. Box 2 includes two examples of how private companies in Sri Lanka addressed the challenge of implementing the IFRS Standards on time. It reinforces the need for proper planning, practical structures, a significant investment in human resources, and obtaining the expertise needed for a smooth transition.

B. Systems

69. In 2010, the Government embarked on an initiative to automate all the business processes of the Inland Revenue Department in order to address inefficiencies in the revenue management system and lead to a more accountable system for increasing revenue collection. This would enable access to timely and accurate information, track tax collections, and automate key departments of the Treasury/MoF that cut across the various functions of its activities and thereby ensure proper and effective management in fiscal and treasury operations. A comprehensive ‘As-Is’ and ‘To-Be’ business process review was carried out with the support of private sector expertise to help design the automated systems. Private sector expertise was also sought to supervise the IT development consultants during the development and implementation stage. These systems are currently being rolled out at the MoF.

70. Box 3 provides private sector examples of the timely implementation of an FMIS.

\textsuperscript{16}PIEs are defined under the act as Specified Business Enterprises and include all publicly traded insurance and finance companies, banks, stock exchanges, public corporations engaged in sale of goods and services, group companies, and other companies falling under the purview of any of the following five criteria: (a) yearly turnover exceeding LKR 500 million; (b) shareholders equity exceeding LKR 100 million; (c) gross assets exceeding LKR 300 million; (d) liabilities to banks and other financial institutions exceeding LKR 100 million; and (e) number of employees exceeding 1,000.
**BOX 3: Successful FMIS Implementation**

1. A hospitality company that operates 16 hotels in both Sri Lanka and the Maldives successfully automated all front-end operations and interfaced them with their back-end operations within a 12-month period. It implemented an SAP system at a cost of US$4 million.

Some of the key features of this timely and effective implementation included the leadership and tone from top management, active user and management engagement throughout the process, a robust implementation structure, and clear and realistic milestones and targets.

- **Leadership from top management.** The project was spearheaded by the CFO who was responsible for both finance and IT.

- **Involvement of management and key users at every milestone of the procurement process.** The process commenced with the approval of a board paper to proceed with an automation process. A comprehensive user requirement survey was carried out via questionnaires and interviews and this underpinned the specifications. Top management was involved in the selection of the vendor by participating in vendor demonstrations of shortlisted candidates and voting for the preferred vendor.

- **Robust structure in place for effective design, development, and implementation.** A highly experienced cross-functional team was created to work full time with the vendor team.

(continued)
C. Internal Audit

71. The Internal Audit Unit of the MoF has been renamed the ‘Department of Management Audit’, symbolizing the shift from compliance to risk-based system/process audits. The re-branding of internal audit is also commonly found in the private sector in Sri Lanka where internal audit departments are called, for example, ‘Business Process Review Divisions’ and ‘Management Audit and System Review Divisions’ and they act as a management tool for decision making.

72. The Department of Management Audit has issued circulars as guidance that follow international internal audit guidelines. This is a step toward shifting the ministry-, department-, and agency-level internal audit units from reviewing transaction irregularities and deviations from the financial regulations and from circulars issued by the MoF. Internal audit units prepare formal, documented annual audit plans which are reviewed and approved by the Department of Management Audit of the MoF to ensure all risk areas are adequately covered. One challenge is the limited number of internal auditors in most departments to ensure satisfactory audit coverage.

BOX 3 (continued)

- Targets for each milestone developed and closely monitored by the top management. The implementation took place on a staggered basis with a few hotels being automated at a time.

2. A group company representing the transportation and logistics interests of a Sri Lankan multinational conglomerate opted for a staggered rollout of its SAP system across 27 of its subsidiaries under two main phases, spanning a project period of one-and-a-half years. The implementation cost of the project amounted to approximately US$750,000.

A strategic evaluation phase was undertaken at the start of the project in which the strategic objectives for the project were firmly established and top management buy in was obtained. The project steering committee was headed by the Finance Director and Chief Information Officer of the group and consisted of a highly experienced and professional cross-functional team whose roles and responsibilities were clearly defined in the project charter.

Internal and external auditors were consulted during all stages of project implementation to ensure that oversight and compliance needs were addressed. A risk management strategy to address the risks associated with the nature and complexity of the project was also formulated. An effective internal communication strategy was developed as part of a wider change management strategy to secure the engagement of all active users and stakeholders. The detailed project implementation plan with clear timelines and deliverables was closely monitored by the steering committee at key milestones of the project.

Business process requirements envisioned for the company were mapped to ‘To-Be’ business process flows, and a fit gap analysis was performed with standard SAP packages. The company’s success at engaging subject matter experts to help define and document its business process requirements led to the improvement of many of its processes as opposed to simply configuring its software to replicate existing processes.

A comprehensive training plan was prepared to address the group’s diverse requirements. The selection of ‘functional champions’ for specific modules, under a train-the-trainer method of training, proved effective in building internal knowledge of SAP within the organization.

A help desk manned by an overseas service team was set up by the foreign consultants to resolve post-implementation issues. The SAP implementation enabled the company to standardize its financial reporting and processes and streamline its operations by integrating SAP with a suite of front-end systems across the group.

Top management commitment, good overall project management, and the selection of a vendor with a sound industry track record, thorough knowledge of the system, and the company’s business processes were pivotal to the success of the project.
Some private sector companies outsource the internal audit function and retain a core group to manage the process. In the examples examined, the internal audit function is not outsourced to the external auditor to ensure its independence. Outsourcing is possible due to the availability of high-quality internal audit skills in the market. In some World Bank-funded projects, private internal auditors carry out the internal audit of the project due to limited numbers of public sector internal auditors in the respective unit. There is, however, a knowledge transfer element in the contract to provide classroom and on-the-job training for public sector auditors.

Box 4 shows the methodology and approach to internal audit services provided by a local audit firm with international affiliations and the internal audit function of a public quoted company.

D. Risk Management

Typical of an aspiring middle-income country, Sri Lanka’s development agenda is increasing in complexity and sophistication and risk management is now an important feature. The country is moving toward results-based disbursement arrangements with development partners for key sectors and most sectors are adopting medium-term plans with a results framework. These call for a clear risk management framework, supported by sound internal controls and information systems to manage the risks that reduce the likelihood of achieving the expected results and development goals. The more advanced companies in the private sector have sound policies for risk management and the example in Box 3 demonstrates a comprehensive approach to risk management. This entails the integration of strategic decision-making processes that cut across the organization with the risk management process and its coordination at the highest levels.
of management within the organization. The CASL has an intensive ‘Corporate Director’s Program’ to build the modern skill sets required by today’s leaders to manage a company.

76. Most forward-looking companies in the private sector are focused on their triple bottom line—social, environmental, and financial. Box 5 describes the structures and processes that have been put in place by leading publicly quoted companies in Sri Lanka to manage their risks and maintain sustainability.
E. External Audit

77. The Government has undertaken several initiatives to strengthen the public audit function in the last decade. Following the preparation of an institutional development plan with technical support from the UK National Audit Office and the Netherlands Court of Audit, the Auditor General’s Department (AGD) commenced a program of strengthening its audit methodologies. At the time, the AGD was constrained by the absence of an Audit Act which could support financial and administrative autonomy and the adoption of recognized auditing standards for the public sector. Despite these limitations and with the support of private sector audit expertise, the audit methodology for financial audit was significantly improved, state-of-the-art technology was introduced, and staff were appropriately trained. The AGD set up two new divisions for performance and investigative audits, introduced advanced methodologies, and established a dedicated training division to continue staff education and training. The key results of this initiative have been the enhanced quality of the SOE audit, where the new methodology for financial audits are used, and the submission of performance and investigative audit reports to parliament for the first time. Some of the key results of the audit reform work carried out are shown in Box 6.

78. To sustain these efforts, a constitutional amendment was passed to strengthen the AGD. An Audit Act is being prepared to support the constitution and transform the AGD into an SAI. The CASL has played an active role in contributing to the constitutional and legal amendments relating to audit, especially in ensuring the appointment of an adequately qualified auditor general. The constitutional amendments have led to a significant increase in the scope of an audit, which now covers those SOEs which have a large government stake and are incorporated under the Companies Act.

79. To meet the increase in its workload, the AGD is collaborating with private sector audit firms to undertake audits. These auditors, who are affiliated to international networks, have access to audit methodologies aligned with international auditing standards. Advanced data analytics tools are used to extensively analyze exceptions and audit risks. These auditors are also subject to the stringent quality assurance arrangements of their firms. The CASL is also actively advocating with the audit regulators for auditors of PIEs (which include commercial SOEs) to be subject to mandatory audit quality assurance reviews. These initiatives create a platform for the auditor general to be able to rely on private sector auditors for SOE audits.

**BOX 6: Enhanced Capacity and Modern Audit Methodologies**

**Introduced with Support from Private Sector Expertise Have Resulted in Enhanced Timeliness and Quality of Audit Reports and Widened Audit Coverage**

<table>
<thead>
<tr>
<th>Result</th>
<th>Year 2008</th>
<th>Year 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of new Financial Audit (FA) procedures in SOE audits</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Staff with capacity on new FA procedures</td>
<td>0%</td>
<td>75%</td>
</tr>
<tr>
<td>Timeliness of audits</td>
<td>44%</td>
<td>68%</td>
</tr>
<tr>
<td>Number of Performance Audits carried out</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Number of Investigative Audits carried out</td>
<td>0</td>
<td>42</td>
</tr>
</tbody>
</table>
F. Regulatory and Accountability Framework

F.1 Legal Framework

80. Aligned with the Government’s pledge to follow good governance practices, two ground-breaking laws—the Public Audit Law and the Public Finance Law—are being formulated. These laws are expected to provide a sound legal framework for robust PFM, transparency, and accountability. In the private sector, the accountability framework is driven by the legal framework, the demands of shareholders, and a performance-oriented culture. This legal framework includes the Companies Act, the Accounting and Auditing Standards Act, and the Securities and Exchange Commission Act.

81. The Companies Act forms the backbone of the legal framework of the private sector and holds directors personally accountable for complying with both the provisions of the act and the company’s articles of agreement. The act also requires that the financial statements be certified by the person preparing the financial statements and dated and signed by two directors on behalf of the company’s board. Failure to submit company financial statements makes every director of the company who is in default liable to a fine on conviction. These provisions have strengthened the accountability framework applying to directors as well as made the preparers responsible for the quality and timeliness of financial statements.

82. Under the Accounting and Auditing Standards Act, the SLAASMB has powers to impose appropriate administrative sanctions for infringements of standards and relevant rules and regulations. Under the provisions of the act, a corporate body and its officers, directors, and auditors can be held guilty of an offense.

83. The Securities and Exchange Commission Act issues directives and circulars on listing requirements, financial reporting, corporate governance, trading, and other matters. It has issued the following guidelines and codes, which are relevant to financial reporting by listed companies: (a) Guideline for the Appointment of Auditors for Listed Companies and (b) Code of Best Practice on Corporate Governance. These were issued jointly with the CASL.

F.2 Management Committees

84. Audit and management committees are established in all ministries, departments, and agencies in the public sector. The committees generally consist of five members chaired by the secretary to the ministry or the head of the entity. The chief accountant of the ministry is a committee member and is answerable for all internal audit queries. Other members comprise the internal and external auditors and a representative of the Department of Management Audit of the MoF. In accordance with the Audit and Management Circular DMA/2009 issued on June 9, 2009, each internal audit unit should submit its internal audit reports, at least once in a quarter, and every audit management committee should meet at least once in a quarter to discuss the issues. External audit reports are also scrutinized by the committee. A summary of key points for discussion is prepared and shared with all concerned parties before the meeting. Minutes of the meeting are circulated to all participants after the meeting.

85. The Finance Act of 1971 makes it mandatory for all SOEs to establish audit committees. Committees should consist of at least three nonexecutive board members, including a Treasury representative. It is preferred for the audit committee to be chaired by a Treasury representative or a person possessing financial management skills. The audit committee is required to meet at least once in three months and report its recommendations to the board, along with the minutes of the meeting, to facilitate taking corrective measures. It is mandatory for the audit committee report to be included in the annual report.

F.3 Standard Setting

86. The CASL formulated the first set of public sector accounting standards in 2009 and has expanded its role in standard setting. This built on its existing role as the country’s promulgator of Accounting and Auditing Standards and drew on its extensive experience in the standard setting process. A Public Sector
Accounting Standards Committee (PSASC) of the CASL was formed and is chaired by the auditor general. Its representatives include members of the CASL, including the assistant auditor general, and staff from the MoF.

87. The PSASC is responsible for determining the adoption of the IPSAS. It determines the priorities for their adoption and ensures that due process is followed. In doing so, it replicates the proven practices followed by the statutory Accounting Standards Committee of the CASL that develops the Sri Lanka Accounting Standards. The CASL Council then approves the recommended public standards and publishes them jointly with the MoF.

88. The PSASC currently has no statutory recognition. No existing statutes underpin the PSASC’s role, unlike the role of the Accounting Standards Committee for which the Accounting and Auditing Standards Act provides the basis for its formation and functioning. The CASL is working closely with the SLAASMB to revise the act in order to recognize the PSASC and mandate the CASL to set public sector accounting standards.

G. Capacity Building and Professionalization

89. Through the APFASL, the CASL launched the Chartered Public Finance Accountancy qualification to build capacity and professionalize public sector accountants. The CASL formed an alliance with the UK public sector PAO, CIPFA, to develop the curriculum and obtain training materials for the course. This Memorandum of Understanding has also opened doors for both CA and APFASL members to obtain CIPFA membership. With CIPFA qualifications, public sector accountants are also able to undertake continuous professional development opportunities which maintain and update their skills.

90. The APFASL whose members are from the public sector conducts awareness programs and training on IPSAS and accrual accounting to finance staff and internal and external auditors in the public sector. APFASL members are also provided with learning opportunities by obtaining access to the wide range of training programs conducted by the CASL for its members. The APFASL also partners with the Ministry of Higher Education to propagate education on PFM with higher education institutions such as universities.

H. Governance and Ethics

91. The MoF issued Public Enterprises Guidelines for Good Governance for SOEs. It requires the SOE’s final audited accounts, together with the Audit Report, in all three languages (that is, Sinhala, Tamil, and English) to be tabled in parliament within 150 days after the close of the financial year. The Board of Public Enterprises is also entrusted with the responsibility of submitting quarterly performance reports to the line ministry (LM) and the MoF Department of Public Enterprises in specified formats on or before 30 days of the end of the quarter. The guidelines emphasize that an annual report is a public document.

92. The CASL also has extensive experience in preparing codes of governance. The CASL has been instrumental in preparing and updating a Code of Best Practice on Corporate Governance for listed

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17 The Accounting Standards Committee comprises 12 part-time members, of which 6 represent the CASL and the rest are nonmembers.
companies and issuing it jointly with the Securities and Exchange Commission for many years. The code is voluntary, with some provisions made mandatory via the listing rules of the Colombo Stock Exchange and via the Companies Act No. 07 of 2007. As a new initiative, the CASL launched a corporate directors program to ensure their understanding of corporate governance practices. A good practice noted in the private sector is the disclosure in the annual report on the level of compliance with the voluntary code, and instances where the company has not adopted such best practice, the rationale for such non-adoption is articulated. More details are provided in Box 7.

93. All PAOs operating in Sri Lanka have a code of ethics for their members and the professional syllabi contains an extra focus on ethics. PAOs also have a robust and independent disciplinary process for their members.

The Political Economy and Collaboration with the Private Sector/PAOs

94. Sri Lanka has a vibrant private sector and it is seen as a key engine for sustained economic growth. The Government’s vision of a private sector-led economy also includes public-private partnership solutions. This thinking also extends to the accounting profession where the PAOs partner actively with the public sector on many initiatives and take an active role in the policy dialogue and technical-level initiatives. The forward thinking and influential leaders of CASL have ensured that the CASL has had direct access to policy-level discussions. This, combined with the appropriate institutional arrangements and the high capacity at CASL, has enabled the institution to be in the forefront of key policy discussions and to work closely with the public sector. This enabling environment includes:

* Operating under the purview of the President of Sri Lanka, with the President appointing a number of council members;
* Holding ex officio positions in key regulatory bodies, including the Securities and Exchange Commission, and the SLAASMB;
* Participating in the work of the Law Reform Commission relating to financial management;
* Partnering with the Ministry of Education/higher education to propagate the importance of PFM-related education; and
* The Auditor General being an ex officio member of the council.

The CASL has also formulated a public sector wing—APFASL—with membership from the public sector to engage in PFM work at a technical level. Such collaboration and reform initiatives would have been particularly challenging if not for the increased political and economic stability and impetus for reform and reconstruction that the end of civil war in 2009 engendered and the growth agenda of the Government that followed.
Pakistan

PFM Reform during Multiple Transitions
About the Case Study

95. The case study explores the Government of Pakistan’s major PFM reforms since 1997 and identifies the support received from the private sector, particularly from PAOs, to drive the process. The study identifies as key reform areas the information systems and accounting procedures that have contributed to enhancing the quality of financial reporting, external audit strengthening activities, and a key cross-cutting area—capacity-building initiatives. The study identifies good practices in the private sector from which the public sector can draw lessons, in the aforementioned areas as well as in the regulatory environment as a key foundation for reform, internal audit, risk management governance, and ethics. The second part of the case study analyzes the political economy to understand the role it has played in creating space for reform and fostering partnerships.

Country and Sectoral Context

96. With a population of 185 million, Pakistan is ranked the sixth most populous country in the world. In today’s Pakistan, increased prosperity has led to a burgeoning middle class and significant progress in addressing poverty. Pakistan’s economy, however, has faced significant challenges and fluctuations that reflect political instability, regional conflicts, and the need for structural reform. Periods of high economic growth in the 1960s, 1980s, and from 1999 to 2005 coincided with reforms, economic stability, and increased external aid. But political uncertainties, natural disasters, and security issues contributed to economic downturns in the 1970s, 1990s, and from 2006 to 2011.

97. In May 2013, Pakistan’s orderly democratic political transition brought in a new government with a strong reform mandate. To arrive at this democratic political transition, Pakistan has endured a turbulent political history marked by frequent regime changes and unrest. Between 1990 and 1999, four different democratically elected governments held power under the same two political leaders. Transitions from one political regime to another have caused uncertainty and short-term reductions in the pace of economic growth and, at times, economic turmoil. But economic recovery has also been resilient; short-term losses caused by political volatility have not been large enough to offset the positive, long-term, economic movement. Nawaz Sharif’s Government introduced a major economic reform program in the early 1990s against a backdrop of arguably one of the worst economic crises in Pakistan’s history. This provided the impetus for PFM reform.

98. The Government commenced its first major PFM reform initiatives in 1997, with support from the World Bank, the European Commission, the UK Department for International Development, and the Asian Development Bank. The World Bank engagement was via the Project to Improve Financial Reporting and Auditing (PIFRA) I and II between 1996 and 2015. The objectives of PIFRA were to:

* Build capacity to improve accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting at all levels of government;
* Improve PFM, accountability, and transparency;
* Enhance capacity of public sector managers to use credible financial information for better and informed decision making; and
* Facilitate oversight of the use of public monies and increase the national and international credibility of the government’s financial statements and assurance processes.

The project was instrumental in separating the accounting and audit functions and has improved Pakistan’s PFM landscape considerably by bringing basic financial discipline to all levels of government. The results of PFM reform efforts were confirmed by the 2012 federal Public Expenditure and Financial Accountability (PEFA) assessment.
99. **Leadership has been an important factor in achieving these reforms.** The PFM reform agenda in Pakistan was ambitious, far-reaching in scope and scale and, by necessity, reflected the decentralization of accountability and decision making to lower tiers of government across the country. The rollout of reforms was therefore a prolonged and complex process that spanned various government administrations. Leadership was key in the instigation and, later, acceleration of the reform process. This long-term commitment to reforms in PFM has led to impressive results, as demonstrated by the PEFA scores shown in Chart 1.

### Background of the Accountancy Profession

100. The self-regulated accountancy profession in Pakistan includes:

- The Institute of Chartered Accountants of Pakistan (ICAP) established by law under a Chartered Accountants Ordinance;
- The Institute of Cost and Management Accountants of Pakistan (ICMAP) established to regulate the profession of Cost and Management Accountants;
The Pakistan Institute of Public Finance Accountants (PIPFA) constituted in the year 1993 and registered with the Securities and Exchange Commission of Pakistan (SECP) under the Companies Ordinance;

The Association of Chartered Certified Accountants (ACCA); and

The Chartered Institute of Management Accountants (CIMA).

ICAP has a membership of 6,835 and the UK-based CIMA and ACCA have a significant presence in Pakistan.

101. Role in advising Government on policy making. ICAP plays a role in strengthening the regulatory framework in Pakistan by working in cooperation with important policy-making institutions and regulators including the State Bank of Pakistan, the SECP, the Federal Board of Revenue, and other ministries. The ICAP Council comprises 15 elected members and 4 persons nominated by the Federal Government for a term of four years. ICMAP is also on the advisory panels of the Federal Board of Revenue and the MoF. ICAP has a public sector accounting committee and ICMAP has a public sector coordinating committee that pay special attention to the public sector.

Key Reform Areas

A. Financial Reporting

A.1 Accounting Standards

102. Pakistan has not issued national cash- or accrual-based accounting standards for the public sector but applies IPSAS principles in its New Accounting Model (NAM). The accounting and reporting framework is governed by the NAM, which was prepared with the support of private sector consulting firms funded by PIFRA. Although the NAM follows the cash-based principles of IPSAS, they have been modified to introduce accrual accounting and reporting aspects. Financial statements are being prepared under the cash basis of accounting and are compliant with the format given by the cash-basis IPSAS. In addition, the NAM requires recording and reporting liabilities and assets as notes to the financial statements. This has improved the veracity of these statements.

103. In the private sector, listed companies, banks, insurance companies, public interest companies, and large companies are required to apply IFRS Standards, as applicable in Pakistan. Medium-size companies apply IFRS Standards for small and medium enterprises as applicable in Pakistan and small companies apply the Accounting and Financial Reporting Standards for Small Sized Entities promulgated by the ICAP.

B. Systems

104. The Government of Pakistan automated its Financial Accounting and Budgeting System (FABS) at all three levels of government with a consistently applied chart of accounts, forms, and procedures in all parts of the country. This has facilitated the processing and recording of millions of government transactions in a single database. The system uses the commercially available SAP application, acquired through
international competitive bidding. The system was implemented and training was provided by private sector consultants. Thousands of staff at all levels of government, particularly in operational roles in accounting and IT, were trained. PIPFA was used extensively for the classroom training. The Government used incentives such as allowances to selectively co-opt staff as master trainers into the reform process. SAP competency centers were created and these centers hired individual, accounting-accredited professionals as consultants to conduct training. Most of them were ACCA-qualified CAs with specialized technical skills in SAP. These professional skills sourced from the private sector have made important contributions to building the capacity that has been an integral component of the reforms. New specialist positions were subsequently created and these individuals were recruited by the Office of the Controller General of Accounts to ensure the sustainability of reforms.

105. The FABS is capable of generating reliable and real-time reports that track actual expenditure from the federal level to provinces and districts. FABS data also facilitate Public Expenditure Reviews (PERs) and various studies/analyses, including Public Expenditure Tracking Surveys and Expenditure and Quality of Service Delivery Surveys to help identify sources of inefficiencies and bottlenecks in the flow of funds. Budget execution reports are used by executives to make expenditure decisions on the basis of the available budget. The IT platform which is in place for further management information—such as the comparative analysis of data by district, entity, or other such classifications—could be very useful for decision making, and it will be possible for this platform to be generated and used by upskilling the executives and policy makers.

106. FMIS solutions as adopted in Pakistan were also designed to address similar issues in the private sector, where they are called Enterprise Resource Planning (ERP) systems. A corporate example of effective ERP implementation as part of a comprehensive reform effort in a privatized SOE, which is now a listed company in the power sector, is shown in Box 8.

**The Role of Private Sector in Conducting SAP Training Courses**
- ACCA accredited private sector consultants were hired to conduct training in the newly established SAP competency centers; and
- Some of these trainers were hired as specialists by the Office of the Controller General of Accounts to give continuity to the reforms.

**Box 8: Implementing a New ERP System as Part of a Broad ‘Turnaround’ Corporate Strategy**

ERP implementation took place in phases during 2005–2013 and an SAP industry specific solution for utilities (IS-U) was implemented from 2011 to 2013. The ERP system was introduced to support the turnaround strategy of the company, which included new power purchase and pricing contracts, building new generation capacity, reducing transmission and distribution losses, and improving human resource management. With SAP implementation, a number of benefits have accrued including the following: previously unknown and unidentified issues have become visible leading to better performance, online billing was introduced and manual billing was eliminated; the risk of revenue loss has been minimized and consumer receivables are easily traceable; and effective management information is generated which provides value-added information for decision making and risk mitigation.

As part of their strategy for attracting and retaining financial management capacity in the organization to sustain these initiatives, a Finance Trainees Program is in place. The trainees work under the direct supervision of CAs. Exam fee and annual subscriptions are reimbursed and market-competitive stipend and remuneration packages are offered to students and professionals, respectively. Accounting professionals have been deployed across diverse business functions to inject financial acumen in all functions, and this also enables the development of nonfinancial skills of accounting professionals.
C. Internal Audit and Risk Management

107. The internal audit function in the civil administration is the responsibility of the chief finance and accounting officers but, as the PEFA notes, it has not been developed as an effective administrative control function. In the company described in Box 6, the business risk management framework is part of the 'turn-around strategy' and internal audit is part of the framework (see Box 9).

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**BOX 9: Business Risk Management Framework**

**Internal Audit Department (IAD)**
- The IAD is completely autonomous where the chief internal auditor reports directly to the Board Audit Committee;
- An annual risk-based internal audit plan is approved by the Board Audit Committee, which forms the basis of all internal audits;
- The IAD also performs consulting for the Whistle-Blowing Policy of Karachi-Electric (KE): employees and other stakeholders are encouraged to report concerns about internal controls, operational matters, etc.; and
- The IAD has implemented an Audit Management System, ‘E-Audit’, to automate internal audit processes.

**Risk Management System**
- Presence of professional accountants to design, plan, implement, execute, and monitor risk management systems;
- Line managers are accountable for managing risk as part of their roles and responsibilities;
- A Business Finance and Risk Management Department with a proactive approach to risk has been established to cater to the needs of the business function. It is involved in risk mitigation as well as contract negotiation and reviews.
- A Compliance Department has been established to monitor, highlight, and address key risks on a regular basis, and to ensure continuous interaction with SAP databases; and
- Unique issues and risks are identified and rectified, often beyond the scope of audits.

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D. External Audit

108. PIFRA strengthened Office of the Auditor General of Pakistan (OAGP) through the introduction of enhanced standards, systems, and by training staff. PIFRA I initiated the OAGP’s capacity building through training on auditing techniques. The project also began testing the newly developed Financial Audit Manual (FAM) using computer-aided audit techniques software, subsequently training users on the software to enhance an automated audit system. In addition to continuing the reforms led by the first phase, PIFRA II focused on sustainability through capacity building of audit and account officers by providing training to strengthen professional capacity and maintain quality assurance. Private sector firms and subsequently audit competency centers operated by individual consultants who were accounting-accredited professionals were involved in the design of the Financial Audit Manual. They also conducted intense training on the manual, performance and forensic audit, public-private partnerships, IT audits, and computer-aided audit techniques. To sustain these reforms, permanent positions were created in the centers and professionally qualified auditors were recruited by the OAGP. There are no National Auditing Standards issued in Pakistan for public audit. The Financial Audit Manual
provides the Department of Auditor General of Pakistan with a set of modern auditing standards by which the audits are to be conducted, concepts, techniques, and quality assurance arrangements that are consistent with international standards, for auditing entities in the Government of Pakistan.

E. Regulatory and Accountability Framework

E.1 Legal Framework

109. The 1973 constitution provides for adequate enabling legal frameworks with respect to public finance, public debt management, and public sector audit. A separate law for PFM is not in place. The Fiscal Responsibility and Debt Limitation Act of 2005 established a rules-based fiscal policy, requiring fiscal transparency and disclosure. The 18th amendment to the constitution makes all bodies controlled by the federation or provinces subject to audit by the Auditor General, abolishing executive power to grant any audit exemptions. The constitution of Pakistan, through Articles 169 and 170, mandates the Auditor General to stipulate the mode and format of accounting and reporting of government accounts.

110. The Companies Ordinance 1984 is the principal legislation for the corporate sector in Pakistan. This ordinance establishes the accounting and auditing requirements for each legal form of company. As per the ordinance, all companies are required to prepare an annual report with, at a minimum, a balance sheet and a profit and loss statement. Companies are required to present shareholders with a copy of the audited financial statements, together with the auditor’s report and the director’s report signed by the chairman of the board or CEO, at least 21 days before the Annual General Meeting. The penalties for failure to comply with ordinance requirements are imprisonment of the directors of a listed company for up to a year and a fine between PKR 20,000 and PKR 50,000, or imprisonment of up to six months and a fine of up to PKR 10,000 for directors of an unlisted company.

111. The introduction of Public Sector Companies (Corporate Governance) Rules in 2013 was a positive development to bolster transparency and accountability in the financial reporting of companies owned/controlled by the Government. The board of directors of the public sector company is responsible for formally approving and adopting the annual report.18 The report is to be prepared according to IFRS Standards, as applicable in Pakistan19 and made publicly available on the company’s website. Like listed companies, public sector companies are required to prepare quarterly balance sheets and profit and loss statements. However, public sector companies are further required to prepare monthly financial statements for circulation to board members.20

E.2 Management Committees

112. The Corporate Governance Code 2012 mandates that listed companies have an audit committee. The audit committee of a listed company should report to the board and must comprise a minimum of three non-executive directors (NEDs) and one independent director. At least one of the audit committee members must have significant expertise and experience in finance.21 The duties and responsibilities of the audit committee are stipulated in the code and include recommendations on the appointment and removal of external auditors, level of audit fees and non-audit services provided by the external auditor, and review of financial statements before approval by the board of directors.

113. Similarly, Public Sector Companies (Corporate Governance) Rules 2013 requires public sector companies to appoint audit committees. The audit committee of a public sector company owned/
controlled by the Government should comprise a majority of independent nonexecutive directors who are financially literate.

**E.3 Standard Setting Process**

114. There are no national public sector accounting and reporting standards in Pakistan. Constitutional responsibilities have been assigned to the Auditor General to stipulate the financial reporting formats for the public sector. Accordingly, the New Accounting Model (NAM) that outlines the provisions/policies/procedures in accounting in the public sector was prepared under the leadership of the auditor general and supported by private sector experts. The NAM follows IPSAS principles; however, it is a static document and not subject to the review and revision functions of a proper standard setting process unlike in the private sector standard setting process in Pakistan.

115. **In the private sector on the other hand, the standard setting process is initiated at ICAP.** It follows a robust procedure to adopt IFRS Standards. Under the supervision of ICAP’s Professional Standards and Technical Advisory Committee (PSTAC), the Accounting Standards Committee (ASC) recommends the adoption of an accounting and financial reporting standard to the SECP. At exposure draft stage, the IFRS Standard/International Accounting Standard is reviewed by the ASC, which then issues its comments to the International Accounting Standards Board (IASB). The ASC subsequently reviews the final IFRS Standard once it has been issued by the IASB, and invites feedback from relevant stakeholders. For this purpose, stakeholders include audit professionals, industry users and specific companies directly affected by the new standard, regulators, investor groups, and academia. The consultation period is usually 30 days. The comments and recommendations generated by the consultation process are made public on the ICAP website but responses are not usually issued. Final IFRS Standards, along with the comments and recommendations of stakeholders, are then discussed at the PSTAC. After due deliberation, the PSTAC sends its recommendations to the ICAP Council for approval. ICAP recommends approved standards to the SECP for the adoption of new IFRS Standards.

116. **The SECP is the primary regulatory body for the corporate sector.** On the basis of ICAP’s recommendation, the SECP’s Corporate Supervision Department, which employs qualified accountants, performs an independent analysis of the impact of adopting the standards. The SECP notifies the standards in the official gazette through its directives, making the application of an IFRS Standard mandatory. The SECP also disseminates information regarding adoption of the standards through press releases to the print media. Pakistan follows differential reporting in the private sector. Companies are categorized as large, medium, or small based on minimum paid-up capital or turnover, or by sectors.

117. **ICMAP has developed Cost Accounting Standards to provide guidelines and facilitate industry, trade, and business.** These are not mandatory standards but serve as guidelines especially for organizations belonging to sectors where cost audits are mandatory. The book on Cost Accounting Standards was published in December 2014 and later circulated to all members, government organizations, and industry. The developed Cost Accounting Standards are as follows:

- Classification of Cost;
- Capacity Determination;
- Direct Material Cost;
- Direct Labor Cost;
- Production Overheads;
- Administrative Overheads;
- Selling and Distribution Overheads;
- Direct Expenses;
- Packing Material Cost;

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Cost of Production for Captive Consumption;  
Cost of Power and Energy; and  
Cost of Service Cost Centre.

The development of cost accounting standards is an excellent effort by ICMAP and a significant step toward the betterment of cost accountants.

118. There are no National Auditing Standards issued in Pakistan for public audit. An Audit Manual for auditing entities in the Government was developed with private sector consultancy support and funded under PIFRA. It is consistent with international standards and the manual will be kept up to date by staff working in the audit competency centers.

119. A process similar to the private sector accounting standard process is followed in Pakistan for approving, adopting, and endorsing new auditing standards issued by the International Auditing and Assurance Standards Board (IAASB). The steps include:

- Under the supervision of ICAP’s PSTAC, the Auditing Standards Committee (AuSC) recommends the adoption of the International Standards on Auditing (ISA), International Standards on Audit Engagements (ISAE), and International Standards on Quality Control (ISQC);
- ISA, ISAE, and ISQC at exposure draft stage are reviewed by the AuSC;
- Exposure draft news with links are published in ICAP’s newsletter;
- ICAP issues its comments to the IAASB after deliberating at the committee level;
- When the IAASB issues the final standard, the AuSC reviews it and invites feedback from relevant stakeholders and sometimes arranges roundtables of relevant stakeholders for their input;
- The final standard, along with the comments and recommendations of stakeholders, is then discussed at the PSTAC; and
- After due deliberation, the PSTAC sends its recommendations to the ICAP Council for approval and adoption.

F. Capacity Building and Professionalization

120. PIPFA is a training body established as a collaboration between the OAGP and Pakistan’s two national accounting bodies, ICAP and ICMAP. Its purpose is to create a mid-tier accounting qualification that would also be relevant to the public sector and train public servants. PIPFA was included in the formal training strategy of the PFM reform rollout and on an ongoing basis with the public service. In the period 2005 to 2012 PIPFA provided training to 3,792 officers in a range of government departments during the rollout of PFM reform to provinces and districts. The PIPFA-issued qualification has now been embedded in the conditions of public servants in the OAGP and Office of the Controller General, and incentives have been introduced to encourage officers to undertake its courses. It is a mandatory qualification for promotion to certain positions, and allowances are paid to officers who attain the qualification in other positions. Over 2,000 PIPFA-qualified members currently work in the civil service. In 2015, PIPFA signed a MoU with CIPFA, the only professional accounting body specializing in public services in the United Kingdom. This will provide the basis for cooperation in developing the accounting profession in Pakistan’s public sector and exploring possible routes for CIPFA membership.

The engagement of the Pakistan Institute of Public Finance Accountants (PIPFA) in public sector capacity building:

- PIPFA provides training to staff at the OAGP and the Office of the Controller General.
- PIPFA also issues qualifications for the public sector, which is a criterion for promotion for certain positions at the OAGP and the Office of the Controller General.
121. The Public Sector Committees under ICAP and ICMAP actively promote high-quality financial reporting in the public sector and adherence to IPSAS. They have created learning and awareness platforms such as Public Sector Accounting Conferences to encourage the use of IPSAS and an improvement in the quality of public sector accounting practices, particularly in relation to disclosure and transparency as well as corporate governance.

122. When conducting capacity building activities in the private sector, ICAP has taken reasonable steps to provide guidance to its members on the IFRS Standards and ISA. A guide to help understand the IFRS has been made available for members. Guidance from large firms on IFRS Standards is available publicly at a cost on the firms’ respective websites. All of the latest publications of IFRS Standards, IFRS Standards interpretations, ISA, and Code of Ethics are made available immediately through their prompt publication and notifying members. An initiative is also under way to issue case studies with respect to various code of ethics requirements.

G. Governance and Ethics

123. The Code of Ethics for the staff of the Department of the Auditor General of Pakistan is in the Audit Manual. The code in the manual was prepared with the support of private sector expertise and aligns with the International Organization of Supreme Audit Institutions’ (INTOSAI) Code of Ethics. Disciplinary actions taken are published on the Department’s website.

124. ICAP regulates the accountancy profession and is responsible for issuing practice licenses to statutory auditors. It prescribes Ethical Standards that are in compliance with, and in some instances more stringent than, the standards of the International Ethics Standards Board for Accountants. The ICAP Council has the power to take disciplinary actions against its members for violating the code of ethics and professional norms and has appointed an Investigation Committee to investigate any breach of these codes and norms.

125. The Code of Corporate Governance was issued by the SECP to all of the listed companies. It was issued in 2002 and subsequently revised in 2012. For public sector companies, the ‘Corporate Governance Rules, 2013’ were issued. The Corporate Governance Code 2012 forms part of the Listing Regulations. Similar to the requirements for listed companies, auditors of public sector companies must provide a statement of the company’s compliance with the corporate governance code.

The Political Economy and Collaboration with the Private Sector/PAOs

126. The scope and scale of PFM reforms in Pakistan created a window of opportunity for the private sector, including PAOs, to support the public sector. The appointment of successive Auditor Generals, who had high-level political support, resulted in the introduction of significant change agents who subsequently laid the groundwork for collaboration over the years. This was achieved through careful sequencing of reforms, a long drawn change management and communication strategy, and via incentives. These Auditor Generals also appointed competent staff to implement the PIFRA project who could navigate the bureaucracy, overcome resistance and establish a connection with private sector consultants to carry out reforms.

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22 ICAP has access to the Pakistan Education and Research Network II (PERN II) knowledge base portal provided by Higher Education Commission of Pakistan which has a digital library consisting of leading international publications and research material of leading international universities. This is available to ICAP Students and Members to access through the internet.
Indonesia
The Role of Partnerships
About the Case Study

127. Substantial progress has been made in PFM in Indonesia over the past decades. This case study focuses on the trajectory of PFM reforms from the establishment of basic IT infrastructure, human capacity, procedures, and frameworks to an increased focus on the more advanced fields of performance and forensic auditing and risk management. The case study drills down on four key areas of reform—financial reporting, FMIS, internal and external audit, and cross-cutting capacity-building initiatives where success is most evident. The study identifies factors that contribute to this success, including key partnerships built in the reform process. The case also analyzes the political economy and how it has affected PFM reforms and forming partnerships.

Country Overview and Sectoral Context

128. Indonesia is an ethnically diverse Southeast Asian country with a population of 254 million and per capita GDP of US$3,492 in 2014. In recent decades, Indonesia has achieved steady economic and social progress amidst a climate of political reform. It now has the world’s tenth-largest economy in terms of purchasing power parity, and its economic growth rate of 4.8 percent in 2015 was the highest among emerging market economies. Substantial gains have also been achieved in the reduction of poverty which was halved to a headcount rate of 11.3 percent from 1999 to 2015.

129. The 1997 Asian financial crisis and the transition to democracy created an impetus for improved transparency and accountability in government and stronger economic resilience to withstand future shocks. These factors instigated enormous political and institutional changes. In 2001, the Government embarked on a dramatic decentralization of political autonomy and transfer of government functions to over 400 regions. Over 12 months, 2.5 million public servants were transferred to the regions and in a short time the share of expenditure accounted for by regional governments increased from 10 percent to over 33 percent. The regions depend on transfers from the central government for over 90 percent of their expenditure through a combination of revenue sharing and general and specific allocations. The confluence of these events opened windows of opportunity, as well as formed the basis upon which reform change agents could be supported by the international donor community.

130. Early efforts in PFM reform primarily focused on specific agencies and included the Audit Modernization Project initiated in 1997, with the support of the World Bank that aimed to enhance the audit capabilities of the SAI, the Badan Pemeriksa Keuangan (BPK). Following the financial crisis and a 2001 Country Financial Accountability Assessment by the World Bank, the Government of Indonesia embraced a broader vision, setting out a comprehensive and ambitious PFM reform agenda in its PFM White Paper 2002. This articulated the need for reform and addressed budget, planning, treasury management, public procurement, accounting and audit functions, debt management and regional PFM.

131. The Government Financial Management and Revenue Administration Project was undertaken from 2004 to 2015 to strengthen the Government’s PFM systems and was also supported by development policy loans. It supported reforms that aimed to increase efficiency, governance, and accountability in PFM and to assist the Government of Indonesia in achieving its priority of greater mobilization of tax revenue. Change management and communications have been an integral part of the overall government reform strategy. The project’s US$65 million of funding combined an International Bank for Reconstruction and Development loan, grant, and credit. Further grants to support PFM reforms were received through the Multi-Donor Trust Fund which has been supported by donors including the Netherlands, the European Union, Switzerland, the U.S. Agency for International Development (USAID), and Canada. Development partners have supported the Government in its PFM reforms through a combination of technical advice, projects, and other mechanisms. The impact of reform initiatives are shown in Chart 2.
Background of the Accounting Profession

132. The accounting profession in Indonesia is underpinned by legislative and regulatory backing and supported by PAOs. The MoF maintains a strong role in regulating the accounting and audit profession. In 2014, there were 53,800 accountants in Indonesia registered by the MoF, although only a fraction were members of PAOs. This number has since fallen to 12,369 due to regulatory changes which now require accountants to re-register with the Institute of Indonesia Chartered Accountants (IAI) and then with the MoF. This initiative was designed to compel the broader completion of professional certification and to promote a higher professional standard. Additional requirements must also be met to qualify as an auditor. These include membership of the Institute Akuntan Publik Indonesia (IAPI), practical experience, and completion of the CPA examination.

133. The benefits that PAOs bring to frameworks for accountability, transparency, and integrity in reporting and financial practices have been recognized through their roles in standard setting, the issuing of codes, certification, the provision of continuing professional education, and quality assurance. There are four professional accountancy organizations including a body that was established specifically for internal auditors. These are the Institute of Public Accountants (IAI), the Association of Public Sector Internal Auditors (AAPI), and the Institute of Indonesia Management Accountants (IAMI). In addition, the Institute of Internal Auditors (IIA) USA also has a chapter opened in Indonesia, IIA Indonesia.

134. The IAI is the main professional body for accountants in Indonesia and is responsible for setting financial accounting standards. The IAI regulates its members and, in 2016, had 24,769 registered members including 16,602 full members. However, membership of the IAI is not required for preparers of financial statements or auditors. Established in 1957, it is a member of the International Federation of Accountants. The IAI has four ‘compartments’ which organize activities and issue guidelines for specific functions: management accountants, public accountants, educational accountants, and public sector. The public sector compartment, known as the IAA-CPSA, deals with capacity building for public sector accountants. It has 5,411 members and provides educational programs and certification specific to public sector accounting.
135. The Institute of Public Accountants is a professional body which represents public accountants, focusing primarily on auditors. Initially established under the Institute of Internal Auditors, it has since achieved ‘Associate’ membership of IFAC. It is responsible for setting auditing standards and issuing a code of ethics. In 2016, IAPI individual members totaled 1,148. In addition to the individual members, there are 499 public accounting firms that have become IAPI members. In 2010, the IAPI issued a Code of Ethics based on the IFAC Code of Ethics for Professional Accountants. Through the Public Accountant Professional Standards Board, the IAPI develops professional standards which converge with the IAASB.

136. An AAIPI was established in 2012 with the mandate of developing the internal audit profession in the government. It now has 13,000 individual members and 628 audit unit members.

Key Reform Areas

A. Financial Reporting

137. Since 2009, the BPK has issued qualified audit opinions for the central government accounts, an improvement on the disclaimers issued in previous years. The number of line ministries receiving clean opinions, rather than disclaimers, has increased significantly since 2007. The qualifications have generally been based on deficiencies in internal controls and these will be addressed by a number of measures, especially the implementation of the FMIS. The move to accrual accounting was supported by intensive training and awareness for over 24,000 spending unit staff and accrual accounting was built into the design of the FMIS.

138. Accounting standards for the public sector are based on IPSAS but with modifications to reflect local conditions. This has been achieved through a systematic approach of review and modification. Under Government Regulation No. 24, the Government Accounting Standards (SAP) were based on IPSAS and implemented from 2005 onwards. Indonesia took the ‘adoption with modification’ route and followed the primary principles of the IPSAS while taking into account domestic laws, existing financial practices, and capacity. The SAP includes a conceptual framework, eleven statements of government accounting standards, and five technical bulletins.

139. In 2015, the Government prepared its financial statements on a full accrual basis for the first time. From 2007, the Government adopted the ‘cash toward accrual’ method which combined a modified cash and partial accrual basis. This was followed in 2010 by the Government’s announcement that full accrual accounting would be implemented by 2015 and the issue of Indonesian Government Accounting Standards under Regulation No. 71. Implementation was achieved with the preparation of financial statements based on accrual accounting in 2015. While budgets will continue to be prepared on a cash basis, financial reporting is now prepared on an accrual basis.

140. A legal framework was developed to provide the foundation for reporting reforms. The 2003 State Finance Law and 2004 State Treasury Law called for the move from cash toward accrual to full accrual accounting. The establishment of the Public Sector Accounting Standard Setting Committee, Komite Standar Akuntansi Pemerintahan, by a presidential decree led to the drafting and promulgation of a new set of government accounting standards. It also helped develop full accrual accounting policies and technical guidelines which both central and local governments’ agencies must follow. As a representative of the committee, the IAI presented the opportunity to learn from the private sector standard setting processes where the IAI has been leading this exercise by setting up the Financial Accounting Standards Board.

B. IT Systems

141. The Government launched a new automated FMIS called Sistem Perbendaharaan dan Anggaran Negara (SPAN) in the Treasury in April 2015. It provides a centralized database of all government financial...
transactions with real-time reporting. The development of this new information system, which commenced in 2009 and took six years to complete, was supported by a multi-donor trust fund consisting of the World Bank and Governments of Canada, the Netherlands, Switzerland, and the United States. Following a pilot project in 2014, the new system was rolled out to 222 locations including 181 treasury branch offices, 33 provincial treasury offices, and 8 treasury directorate units across Indonesia. The aims of SPAN are threefold: facilitate the preparation of a unified state budget; control budget execution; and provide comprehensive and timely information of the Government’s financial position. A designated high-level MoF functional and technical design team worked with a specialist consultant team to detail treasury processes and develop the SPAN specifications and bidding documents. A clear communication strategy was prepared with support from private sector experts to manage the change process. The SPAN system was publicly endorsed by Indonesian President Joko Widodo, showing a strong sense of ownership beyond the MoF, who stated that “SPAN enables easier control and therefore it makes all ministries monitor their activities more closely.”

142. A private sector project management consultancy firm contributed to the success of the FMIS rollout. The firm played a significant role in assisting the Government with project management and quality assurance needed to implement the design and rollout of SPAN. It provided much needed advice and guidance to the structural unit established to lead the SPAN implementation.

C. Internal Audit

143. The establishment of a modernized internal control function in the public sector has been challenging but significant steps have been taken to build institutional strength, improve capacity, and develop appropriate policy and procedural frameworks. The scope of the internal control mandate following the Government’s decentralization is challenging given the paucity of trained auditors, and the fact that local government inspectorate auditors are required in over 500 locations. The President of Indonesia has requested internal audit practice to be world class by 2019 and international partners are assisting in building its institutional strength.

144. The establishment of a separate national internal audit institution, the BPK, and an AAIPI have been crucial measures designed to strengthen and professionalize internal audit. A dedicated national internal audit institution is intended to provide the overarching institutional strength which will direct and coalesce developments and build government capacity. Its role has been clarified by financial regulations and the institution has been mandated with leading the implementation of the COSO-based Government Internal Control System (GICS) in all line ministries and local governments. The promotion of training, professionalization of staff, and the revision of the policies, procedures, and practices have been key focus areas. This system has been piloted in a number of line ministries and is in the process of being rolled out. The Badan Pengawasan Keuangan Dan Pembangunan (BPKP)—Indonesia’s state finance and development surveillance committee—is benchmarking itself with similar institutions in other countries including South Africa and Brazil and is utilizing the Internal Audit Capability Model developed by the IIA Global to facilitate comparisons. It is leading efforts to facilitate the formation of the ASEAN Association of Government Internal Audit Institutions.

145. The AAIPI was established in 2012 with the mandate of developing the internal audit profession, providing input to the Center of Auditor Development in the BPK and ensuring uniformity in government internal audit. It is chaired by the inspector general of the MoF and its operations are overseen by its executive director at the Badan Pengawasan Keuangan Dan Pembangunan. Since its establishment, it has developed a set of government internal audit standards, peer review standards, and a code of ethics. It plans to partner with IIA Global to develop a quality assurance program and support the Government’s efforts to improve the capacity of the internal audit units of the Government to meet level 3 of Internal Audit Capability Model requirements. It includes government internal auditors based in inspectorates and local government inspectorates. The AAIPI will also develop performance audit guidelines and a distance learning website to accelerate training of internal audit staff across the Government. In October 2015, the Minister for Finance announced that the AAIPI would develop a risk management framework for ministries, local governments, and other state institutions. This agenda is moving quickly in the direction
of the private sector where the Center for Risk Management Studies in Indonesia is leading the risk management professional capacity building, and partnering with the Indonesia chapter of the IIA to deliver risk management certification courses.

D. External Audit

146. The Government’s external audit capabilities and oversight were transformed in the decade following the implementation of the Audit Modernization Project at the national SAI, the BPK, in 1997. This World Bank-sponsored project aimed to enhance the BPK’s audit capabilities and prioritized improvements in technology and skill levels. It established the platform that enabled later developments, including the issuing of BPK audit standards in 2007. The reforms were underpinned by new laws which addressed issues related to its role, organizational structure, and budgetary independence.

147. Development of the BPK’s capabilities enabled it to assume a leading role in efforts to establish the Association of Southeast Asian Nations Supreme Audit Institutions (ASEANSAI), an organization comprising SAIs of the 10 members of ASEAN, which provides a forum for cooperation and knowledge sharing across the region. It provided the initial chairman and head of secretariat upon the organization’s establishment in November 2011 and continues to play a general leadership role in the ASEANSAI community and participates actively in the organization’s various committees.

148. The modernization of IT, increased resourcing, and a comprehensive and sustained staff training strategy were core components of audit reforms. Reforms were carried out in a strategic manner, guided by strategic plans and implementation plans which were updated periodically. A review stated BPK had moved from a ‘low level of computerization to state-of-the-art architecture’. Increased resources and doubling of the number of regional offices since 2006 significantly improved the BPK’s ability to deliver its mandate. Extensive training activities were undertaken and included in-country and overseas degree programs, in-country and overseas short courses, enhancement of the training center, and development of e-learning. The Audit Law (2004) permits the outsourcing of audits to private sector audit firms. There have been a few audits of SOEs undertaken by private audit firms at the BPK’s discretion. The Audit Law (2004) explicitly included performance audits within the remit of the BPK and, in 2014, the new chairman of the BPK announced a focus on performance audit. Guidelines for performance audit were established and training was provided on performance audit to a group of auditors. A performance audit framework was established to develop a dedicated performance audit department.

149. Strengthening activities were supported by consultants from the private sector with extensive experience in the area of audit, project management, and change management. The development of the BPK’s capabilities has also been significantly assisted by collaborations with the SAIs of other countries. For example, peer reviews have been carried out by the SAIs of Poland, Netherlands and New Zealand. The Government Partnership Fund was agreed between the BPK and the Australian National Audit Office (ANAO) as a means for the ANAO to provide technical assistance to the BPK. Its program included managerial and technical development of performance audit and its program included workshops, pilot projects, and secondments. BPK auditors were sent on secondments to the ANAO and the ANAO conducted workshops for staff and senior management. Collaboration with the Office of the South Africa Auditor-General has led to substantial changes in performance audit frameworks. Policies, guidelines, and training curricula for performance audit were developed under this collaboration.

150. The impact of the external audit reforms has been observed in a number of successive reviews. A Project Impact Assessment reported that 80–85 percent of staff were professionally qualified. There had been a substantial increase in the number of staff with accounting or master’s degrees. The recruitment of staff at entry level moved from secondary school to graduate level. A peer review by the Dutch Court of Auditors noted the remarkable progress which had been made since the initiation of the modernization of the BPK.23 The PEFA rating on overall performance improved from C+ to B+ from 2007 to 2012 while

23 Peerr Review of the Audit Board of Indonesia, Algemene Rekenkamer.
the Government of Indonesia’s score on Oversight by Auditors in the Open Budget Index increased to 75 percent in 2015. All government activities, including at a subnational level, are now subject to the BPK’s scrutiny, and an internationally compliant framework of rules, regulations, and procedures is in place. In addition, quality control and assurance systems have been implemented.

151. The BPK has committed to implementing the ISSAI. These are examined in full by the BPK to ensure an appropriate understanding before being translated into Bahasa Indonesian. The BPK is an active member of the ASEANSAI knowledge sharing committee overseeing the implementation of the ISSAI across the ASEAN region. The committee has focused on establishing a framework for the implementation of the various elements of the ISSAI and the establishment of a central core of certified ISSAI implementers.

E. Capacity Building and Professionalization

152. The broad reform agenda was supported by a training needs analysis and an overall training strategy. The strategy entailed the identification of suitable courses available both within the country and outside. A key challenge to implementing PFM reforms has been the lack of qualified accountants especially at the subnational level. The training strategy has the potential to form a good platform for mainstreaming the training offered by the professional accountancy bodies in Indonesia and outside. The concerted efforts being made by the Indonesian PAOs to enhance their professional qualification—such as the MoU which the IAI signed with the Institute of Chartered Accountants of England and Wales to strengthen the accountancy profession in Indonesia—provide a good rationale for recognizing the qualifications offered by PAOs as a means of strengthening the Government’s capacity to implement PFM reforms.

The Political Economy and Collaboration with the Private Sector/PAOs

153. The Government (MoF) has been a key driver of increased collaboration with PAOs in Indonesia. A combination of high and working level staff members moved the reform agenda forward. The Government has recognized the low level of qualified professionals as a significant impediment to reform and has taken a number of steps to increase professionalization. PAOs are at the center of this process which aims to accelerate and achieve the reform of its public financial management environment. The Government has made it mandatory for accountants to complete qualifications with the IAI in order to register with the MoF, established a dedicated PAO for public sector internal auditors with links to the global PAO, and played a strong role in establishing a regional PAO.
India
PFM and Devolution
About the Case Study

154. The devolution of service delivery and fiscal responsibility in India shifted key responsibilities to local government and focused the spotlight on financial management practices at the local level. Comprehensive PFM reforms were undertaken in local government bodies, including in the state of Karnataka, where the state Government—with the support of private firms—implemented a series of measures by working with the international donor community and central government agencies. This case study explores the PFM reforms of Urban Local Bodies (ULBs) in India. At an early stage, the state Government recognized the need to bring in technical expertise and involved private firms which have provided important support in developing frameworks of policies and procedures, preparing for implementation, building capacity, and auditing financial statements. The study identifies partnerships that were formed for successful PFM reforms and also analyzes the political economy environment that supported reforms.

Country and Sectoral Context

155. The Indian Government comprises a federal structure with three tiers—the central government, state governments/union territories, and local self-governments (LSGs). The latter are constitutional bodies that are formed under their respective legislation (74th and 75th Constitutional Amendments). In the state of Karnataka, there are two major types—ULBs and Rural Local Bodies referred to collectively as Panchayati Raj Institutions (PRIs). These entities have their own legal basis, acts and rules, and policy-making processes and are distinct from the state government. LSGs play an important part in the country’s PFM environment as they manage significant funds disbursed by the central and state governments as well as their own collections. Against this background, it becomes imperative to both improve the PFM framework in LSGs and to enhance transparency and accountability. Figure 1 shows the catalysts for reforms.

FIGURE 1: Catalyst for Reforms
156. LSGs depend largely on public funds as their own resource base is low. However, LSGs are required to improve their service delivery, which will require funds to be generated, and must therefore adopt strategies and reforms to generate their own source revenue.

157. Devolution from the state to ULBs and PRIs has increased in the past decade and is expected to increase further. This follows the announcement of the 14th Finance Commission award which has recommended further devolution to LSGs. Devolution of funds has increased markedly over the years: US$1.5 billion during the 11th Finance Commission (FC-XI) (2000–05), US$3.7 billion during FC-XII (2005–10), US$13.2 billion during FC-XIII (2010–15), and US$43.5 billion for the period 2015 to 2020.

158. The central government flagship schemes that have been introduced to support these bodies have also significantly increased the flow of funds to LSGs. Against a backdrop in which increasing decentralization meant that PRIs managed significant funds disbursed by the central and state government, PFM reform of LSGs was an inevitable and necessary imperative.

159. A long-term vision of the State that appreciated the need for such reforms and persistent administrative leadership ensured the successful implementation of reforms. Adequate resources in terms of budget, timelines and technical expertise were provided by the state. Reforms were implemented on a project basis with clear and realistic deadlines as well as a dedicated, continuous and empowered project team. Reforms also called for continuous collaboration with departments, line staff, and other stakeholders for successful implementation. A clear and well-articulated change management strategy was a prerequisite for such reforms.

160. Various central and state finance commissions have highlighted the PFM weaknesses and recommended steps to reform this sector. Key recommendations have been to strengthen accounting and auditing systems, introduce double entry accounting systems, improve own source revenue to augment resources, and enhance service delivery. The finance commissions have even recommended performance grants for LSGs that produce timely accounts and complete audits on time.

161. Many central government flagship schemes to support LSGs have focused on reforms. Jawaharlal Nehru Urban Renewal Mission focused on key PFM reforms comprising:

* Adoption of modern accrual-based double entry systems of accounting in ULBs and parastatal agencies;
* Introduction of a system of e-governance using IT applications; and
* Reform of property tax with geographic information system so that it becomes a major source of revenue for ULBs.

The current flagship program in the urban sector, Atal Mission for Rejuvenation and Urban Transformation, is providing funding of US$8.4 billion for 500 cities over five years. Key reforms envisaged under the scheme include e-governance and augmenting double entry accounting, complete migration to a double entry accounting system, and the publishing of audited financial statements every year.

162. The delivery of services by the LSGs has led to an increase in demand by its citizens and to reforms in the organizations. The overall introduction and implementation of IT in various services across the state and government departments led to further demand of IT-based services at the LSG level.

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24 Own sources both tax and non-tax revenue, devolution/grant in aid from the state government, and scheme funds provided by the Government of Karnataka and the Government of India.
25 14th Finance Commission has incentivized timely accounting and auditing by providing performance grants to those LSGs that submit audited annual accounts that relate to a year not earlier than two years preceding the year for which grants are given.
26 An urban sector flagship scheme of the Government of India from 2005 to 2015 with an outlay of US$4 billion which aimed at modern and transparent budgeting, accounting, financial management systems, designed and adopted for all urban service and governance functions.
Key Reform Areas in Urban Local Bodies

A. ULB Accounting Reforms in Southern States of India

163. Many states embarked on ULB accounting reforms which were supported by World Bank projects. A snapshot of reforms across the three southern states is provided in Table 1.

B. Creation of Accounting Standards and Accounting Manual for ULBs

164. In 2001, India’s Supreme Court declared that ULBs should adopt immediate measures to convert their accounts from a cash to accrual basis. The said decision of the apex court in India has largely contributed to the conversion process gaining momentum. The Ministry of Urban Development recognized the need for proper accounting and reporting at ULBs to improve transparency and service delivery.

165. In consultation with the Comptroller and Auditor General of India and with support from USAID, the Ministry hired a chartered accounting firm to create the National Municipal Accounting Manual (NMAM) in 2004. The NMAM was the starting point for most of the ULB reforms undertaken in India,

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<th>TABLE 1: ULB Reforms in Three Major Southern States</th>
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<tr>
<td><strong>Areas of Reform</strong></td>
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<tr>
<td>Number of ULBs</td>
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<tr>
<td>Funds handled by ULBs</td>
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<tr>
<td>Accounting manuals and budget manuals</td>
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<tr>
<td>Double entry accrual-based accounting system</td>
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<td>Computerized accounting system</td>
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<tr>
<td>Display of financial statements</td>
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<tr>
<td>Online accounting</td>
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<td>Supported by World Bank Project</td>
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and laid out the policies and procedures and how the accounting statements should be presented by the ULBs. It ensured uniformity in accounting across the states. Based on the NMAM, the states developed their own manuals which largely adopted the principles from the NMAM and were used for further accounting reforms.

166. The ICAI\(^{27}\) has set up two committees to deal with issues regarding public sector accounting: the Committee on Public Finance & Government Accounting and the Committee on Accounting Standards for Local Bodies. The Committee on Accounting Standards for Local Bodies has drafted accounting standards for local bodies which mostly correlated with the NMAM. These accounting standards are recommendatory in nature but it is expected they will be made mandatory in the future. Standards formulated in this way are sent to the Ministry of Urban Development and the Ministry of Panchayati Raj to recommend for implementation by the state governments concerned. The ICAI also issued a Technical Guide on Accounting & Financial Reporting for Urban Local Bodies.

C. Urban PFM Reforms in Karnataka

167. LSGs play an important role in the state PFM environment as they manage funds accounting for up to 42 percent of net own revenue receipts of the Government of Karnataka, India (not including taxes and fees that they themselves levy). The governance structure for ULBs and PRIs in Karnataka is outlined in the paragraphs below.

168. In 2003/4, the state Government carried out an assessment of the Public Financial Management and Accountability system to analyze the financial management status and assist in undertaking a capacity-building program. As part of this study, the Government of Karnataka prepared a comprehensive action plan for improvements over the medium term and has carried out the resulting reforms at the LSG level. These reforms were introduced as a means of enhancing transparency and improving service delivery to the state’s citizens. The reform process was supported by two World Bank-funded projects: the Karnataka Municipal Reforms Project and the Karnataka Panchayat Strengthening Project.

169. In 2006 the Government of Karnataka embarked on the implementation of a double entry accrual-based accounting system across ULBs in the state. By carrying out the urban PFM reforms in a sequential manner in clearly defined phases, full implementation and rollout of the reforms were achieved across the state. Figure 2 outlines the steps and the timelines taken to implement the reforms.

170. A dedicated Project Management Unit was established. A Municipal Reforms Cell (MRC)\(^{28}\) was created in 2005 to serve as the modal agency for the implementation of computerization and other reforms in all ULBs. The agency is headed by a senior officer from the Government of Karnataka and is responsible for the rollout of municipal applications of ULBs and supporting them in implementing computerization reforms, data maintenance, capacity building, and training. The MRC is staffed by 50–60 professionals with expertise in various domains including IT, accounts, finance, and municipal processes and procedures. While the initial setup phase was supported by the World Bank, the organization has continued with support from the Government of Karnataka.

\(^{27}\) Both the ICAI and the Institute of Cost Accountants of India are members of the Government Accounting Standards Advisory Board (GASAB) constituted by the Comptroller and Auditor General of India. GASAB developed a road map for transition to accrual-based accounting in India and is also developing accrual basis accounting standards alongside cash basis standards.

\(^{28}\) The website for the government reforms cell from which all ULB websites can be accessed is: http://www.mrc.gov.in/

National Municipal Accounting Manual (NMAM) and Accounting Standards

The NMAM (2004) was developed with help of the CA firm AF Ferguson and was funded by USAID. The NMAM was a comprehensive document with accounting policies, procedures, formats of financial statements, and presentation of the statements as per the accrual basis of accounting. The Institute of Chartered Accountants of India (ICAI) developed accounting standards for local bodies which are comparable to the standards used in the private sector.
171. **Karnataka Municipal Accounting and Budgeting Rules were enacted.** These rules provided the framework for implementing the system. The Karnataka Municipal Accounting Manual was developed and based on the National Accounting Municipal Manual which was approved in 2006. The enabling framework was completed with these enactments.

172. **The Opening Balance Sheet (OBS) was prepared.** The Government of Karnataka appointed CA firms to prepare an OBS and the first-year accounts. The CA firms were allotted specific ULBs and worked with staff in identifying, recording, valuing, validating, and finalizing the accounts. The OBS for the year 2006 was prepared for all ULBs to be used later for the transition. For the first batch of ULBs, the OBS was used as is while for other ULBs it was updated from time to time until the transition.

173. **A specialized cadre was created.** The Government of Karnataka created an accounts cadre for all ULBs, and recruited commerce graduates and consultants for ULBs who played an active role in implementing reforms. CAs and commerce graduates were hired in the MRC to supervise and support the
reforms. These accountants worked with CA firms during the initial years of transition, subsequently carrying out accounting work in their respective ULBs.

174. **Web-based computerized accounting software was developed and implemented.** Web-based software was initially developed with core modules of accounting, birth and death registration, and property tax database. The software was piloted in a few larger ULBs. Additional service-level modules were later developed and implemented gradually over the years. Currently, the software has full accounting, budgeting, and reporting functionalities, property tax database, customer interface for various services like public grievance, building plan approval, trade license approval, water and underground drainage connection, service-level benchmarks, asset management system, and so on. The Government of Karnataka is developing a geographic information system to map the property tax assets with the property tax database, which has been rolled out in nearly 100 ULBs to date.

175. **Training modules were developed and training provided to ULB staff.** The MRC developed training modules on accounting manuals and transactions, technical modules, and software modules. All staff—including accounts, revenue, and computer operators—were trained by the MRC in both functional and software aspects over the years. Focused training was provided to the commissioners, senior management, and councilors on the benefits of reforms, how to read reports, and how to interpret key financial information for decision making. Refresher training and continuous update to staff is imparted by the MRC on an ongoing basis.

176. **Implementation was carried out in phases.** Implementation was conducted in three phases based on materiality and readiness. Fifty-five larger ULBs (in terms of revenue and area) were piloted in the first phase. The rollout started in 2006–07 and was completed in 2009–10. In the second phase, reforms were initiated in 73 medium-size ULBs, with complete rollout achieved in 2010–11. In the final phase, reforms were initiated in 85 ULBs in 2009–10 and complete rollout was achieved in 2012–13. A technical secretariat with private sector experts was appointed under the Directorate of Municipal Administration for the first phase of the rollout to: (a) train staff to manage the further implementation of the system in other ULBs; (b) customize the software; and (c) supervise the entire implementation process, monitor its progress, and troubleshoot.

177. **Online accounting was achieved across the state.** From the financial year 2014, all ULB accounting is being undertaken online using accounting software and can be accessed by the public. Apart from financial details, other important services and service-level benchmarks across the state are available on the ULBs’ website, which the general public has access to.

178. **Impact.** The impact of the reforms are outlined in Figure 3 and Table 2.

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**Collaboration with e-Governments Foundation**

The Government of Karnataka collaborated with the e-Governments Foundation to develop and implement an e-governance solution across 57 ULBs in the state. This foundation specializes in developing and implementing such platforms for ULBs. A municipal e-governance product suite is being implemented in seven states. By leveraging technology, good practices from the private sector, and following business process reengineering, the Government of Karnataka empowered ULBs to improve their processes and systems and enhance the efficiency of service delivery.

For more information, refer to www.egovernments.org.
**TABLE 2:** Changes in ULB Compared to 2004 Baseline

<table>
<thead>
<tr>
<th>Areas</th>
<th>Baseline 2004</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting system</td>
<td>Lack of regularity in maintaining accounts and incomplete double entry accounting is followed</td>
<td>Accounts are prepared online and double entry accrual-based accounting system implemented across state</td>
</tr>
<tr>
<td>Timeliness of accounts</td>
<td>Accounts are normally delayed by 12–18 months from the end of the financial year</td>
<td>Accounts are prepared within three months of the end of the financial year</td>
</tr>
<tr>
<td>Pendency in accounts</td>
<td>Backlog ranged from one to four years</td>
<td>Currently there is no backlog and accounts are up to date</td>
</tr>
<tr>
<td>Disclosure of financial statements</td>
<td>No system was present</td>
<td>All financial statements, budget, audit reports, and service-level benchmarks are available online on the ULBs' website. City management reports including a report on activities and financials by the commissioner, performance indicator, and service-level benchmarks are also displayed on the website.</td>
</tr>
<tr>
<td>Quality of financial statements</td>
<td>Quality of financial statements was an issue as no accounting standards or uniform policies were followed. Due to the lack of proper accounts, the financial statements were not prepared; the audit was also delayed due to non-completion of accounts.</td>
<td>Uniform accounting policies are followed as per the Karnataka Municipal Accounting Manual. These policies are comparable to the Indian accounting standards prescribed by the ICAI. Financial statements such as income and expenditure statement, balance sheet, notes to accounts, significant accounting policies followed, budget variance statement are prepared and published. These financial statements are audited by CA firms as per the ICAI's guidelines. This is a first step for ULBs to establish a credit rating. These statements are comparable to the annual reports issued by the private sector.</td>
</tr>
</tbody>
</table>
Challenges in Implementation

179. Some of the key challenges faced when implementing reforms are as follows:

* **Prolonged implementation timeline.** The implementation took nearly 8 years, which was much longer than had been originally anticipated. This was due to system issues, the slow development of modules, and declining support from the IT vendor.

* **Staff availability.** The availability of staff was also an issue at certain times due to the transfer and movement of trained staff to other departments and organizations.

Key Factors for Successful Implementation

180. Some of the key success factors for implementation are as follows:

* An effective project management structure was established and maintained during the project;
* A formal implementation plan was prepared and followed and was monitored by the World Bank;
* Appropriate sequence of reform activities was followed and was monitored on a regular basis by the World Bank;
* Relevant technical skills (accounting, auditing, and IT) were considered when hiring the reform team;
* An administrative leadership with commitment to change and change agent in the Government supported these reforms;
* Staff provided support at the working level; and
* Technical assistance and monitoring provided by the World Bank on a timely basis also played a pivotal role in the success of the reforms.

Political Economy of Reforms

181. India’s decentralization program created a window of opportunity to focus on PFM reforms in ULBs. This study identified a significant change agent who was crucial in leading these financial management reforms. The leadership of the Director of the Department of Municipal Administration in the state of Karnataka brought together many stakeholders including ULBs, PAOs and their members, the Department of Municipal Administration, and the Urban Development Department. The administrative leadership and commitment also won the confidence of the Chief Minister, whereby the reforms were announced as part of the vision statement of the Chief Minister. The success in Karnataka influenced that ULB PFM reforms in other states.
Malaysia
A Move to Accrual Accounting
About the Case Study

182. The case study explores the Malaysian Government’s efforts to transform its reporting practices to support the new development goals of the Government. The study describes the structured approach adopted by the Government and how PAOs have contributed to the reform. The study also analyzes the political economy that created a conducive environment for reform.

Country and Sectoral Context

183. Malaysia is a highly open, upper-middle-income economy. Malaysia was one of the countries identified by the Commission on Growth and Development in its 2008 Growth Report to have recorded average growth of more than 7 percent per year for 25 years or more. Malaysia has a diversified economy today and has become a leading exporter of electrical appliances, electronic parts and components, palm oil, and natural gas. After the Asian financial crisis of 1997–1998, Malaysia continued to post solid growth rates, averaging 5.5 percent per year from 2000–2008. Malaysia was hit by the global financial crisis in 2009 but recovered rapidly, posting growth rates averaging 5.7 percent since 2010. The long-term sustainability of this favorable outlook, however, hinges on structural reforms to strengthen medium-term fiscal planning and to boost capabilities and competition within the economy.29

184. Confronted by the pressures of a contracting global economy and the threat of being caught in the middle-income trap, in 2010 the Malaysian Government unveiled the New Economic Model (NEM) to transform Malaysia into a high-income nation by 2020.30 The Prime Minister of Malaysia announced the National Transformation Program (NTP) to implement the NEM. The transformation program comprises two components: the Economic Transformation Program and the Government Transformation Program (GTP). While distinct, the two programs work in tandem toward reaching the country’s aspirations for 2020. The Government Transformation Program focuses on transforming the Government to improve its delivery system and put public needs first. The Economic Transformation Program aims to elevate the country to developed nation status by 2020, targeting per capita gross national income of US$15,000. It was estimated that this could be achieved by attracting US$444 billion in investments which would, in turn, create 3.3 million new jobs. The transformation program recognized reforms in reporting as a requisite for the sustainability of public funds thus creating a window of opportunity for PFM reforms.

185. The country’s political leaders set the pace and tone for PFM reform by recognizing it as an important pillar for achieving Malaysia’s development and economic goals. The Secretary-General of Treasury and the Accountant General have been champions and change agents in the reform process, pulling in the right resources and leading the sequencing of activities for a successful reform process. In addition to these natural champions emerging, the system also created change agents within accountants in line ministries to manage the change process.

The targets of the Economic Transformation Program for 2020 are expected to be achieved through the implementation of:

a. 12 national key economic areas. These are economic sectors which have significant contributions to GNI; and

b. 6 strategic reform initiatives (SRIs). These are policies which strengthen the country’s commercial environment to ensure Malaysian companies are globally competitive.

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186. One of the SRIs is Public Financial Management Reform which is aimed at strengthening the Government’s finances to ensure stability and sustainability of public funds. Through this SRI, the Government has targeted to achieve a near balanced budget by 2020. Introduction of the accrual accounting system based on the IPSAS accounting standards as an enabler is one of the 21 initiatives under this SRI.

187. The Federal Government’s financial statements have been prepared on a modified cash basis and in compliance with Cash Basis International Public Sector Accounting Standards (Cash Basis IPSAS) since 2005. The NEM highlighted that the analysis of fiscal aggregates needed to better represent all aspects of the Government’s operations. The Government believes that moving to accrual accounting will provide information that will:

* Provide a holistic and accurate snapshot of its financial position;
* Enhance transparency and accountability of its financial management;
* Improve financial management and accounting through good governance and delivering value for money;
* Enhance the efficiency and effectiveness of the Government’s fiscal management;
* Result in effective measurement of policy outcomes through implementation of management accounting; and
* Provide better indicators for prudent financial management.31

Financial Reporting Reforms

A. Preparation of the Accountant General’s Department to Move to Accrual Accounting

188. While the transition to accrual accounting started in 2011, in reality, efforts to attain better financial management started six years earlier. This was when the Federal Government adopted the Cash Basis IPSAS for the financial year ending December 31, 2005. Adopting and implementing Cash Basis IPSAS was beneficial and a positive transitional step for Malaysia.

189. In early 2013, the MoF issued a Treasury Circular explaining the move to accrual accounting. It detailed the inherent benefits, particularly in providing a comprehensive and accurate picture of the Government’s financial position that would enhance transparency and accountability of the public sector finances leading to enhanced public sector financial management.32 The circular also outlined the responsibilities of the secretary general of each line ministry in relation to the implementation of accrual accounting to obtain high-level commitment from the line ministry.

B. Governance Structure

190. As the Accountant General’s Department (AcGD) is the lead agency for driving the conversion from modified cash to accrual-based accounting, it has put in place a governance structure as set out in Figure 4 to facilitate the implementation of accrual accounting at the AcGD and in line ministries.

191. It is critical to set up such high-profile committees to administer and monitor the accrual accounting implementation process closely. As shown in Figure 4, some of the committees are chaired

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31 Treasury Circular: 1PP-PS1.2.
32 Treasury Circular: 1PP-PS1.2.
by the Secretary General of the Treasury, while others are chaired by the Accountant General. This is to ensure the support of high-level officials which is critical for maintaining the momentum of the project. Implementation is monitored by the Accrual Accounting Steering Committee (AASC) which is supported by three working committees, as illustrated above. At the line ministry level, each ministry has its own accrual accounting implementation committee to ensure smooth implementation.

C. Implementation Strategy

192. The AcGD established an accrual accounting implementation team in December 2012. The team comprises six units—development, technical, implementation and data management, policies and standards, change management and quality, and administration. The team also includes a service provider (an international accounting firm) and a system integrator.

The implementation strategy comprises four main pillars which are as follows:

1. Standards and policies;
2. Laws and regulations;
3. Process and technology; and
4. Human resources.

1. Standards and Policies

193. The AcGD is the main driver for the implementation of accrual accounting in the public sector, which includes developing accounting policies and standards. The AcGD has established two committees: the Government Accounting Standards Advisory Committee (GASAC) and the AASC to oversee, confirm, and
approve the development, adoption, and implementation of Malaysian Public Sector Accounting Standards (MPSAS). The GASAC comprises members from various professional accounting bodies including the Malaysian Institute of Accountants, representatives from the State Treasury, the MoF, the AGD, and institutions of higher learning. The AASC is responsible for approving MPSAS which have been deliberated and endorsed by the GASAC. The AASC is chaired by the Accountant General and comprises senior directors of the AcGD and chief accountants of line ministries.

194. The AcGD develops and issues MPSAS which are drawn primarily from IPSAS. To a large extent, the AcGD maintains the original text of the IPSASs unless there is a significant public sector issue or local legislation which warrants a departure. At the time of writing, the GASAC had developed and endorsed 35 MPSAS, of which 32 have been approved by the AASC. Apart from the development and adoption of MPSAS, both the AASC and GASAC have also developed and approved the accrual accounting policy, the transition policy which is mainly based on ED 53/IPSAS 33 First-Time Adoption of Accrual Basis IPSASs, accrual accounting manual, and interpretation of accounting policies.

2. Laws and Regulations

195. In addition to setting policies and standards, the AcGD also identifies and proposes amendments to relevant laws and regulations. The AcGD has reviewed the federal constitution and various legislation. There were no amendments required except for the Financial Procedure Act 1957, Unclaimed Monies Act 1965, and National Trust Fund Act 1988. The amendments to these acts are awaiting to be tabled to parliament.

3. Process and Technology

196. The AcGD identified five focus areas to improve process and technology which include the accounting system, revised and new processes (that is, processes to be implemented), chart of accounts, review of financial documents, and data collection. Currently, the AcGD is using a modified cash basis accounting system which comprises the following four accounting related systems:

- **eSPKB**—a budgeting control and planning system where it manages Government appropriation and spending at the responsibility center level;
- **eTerimaan**—a collection system that deals with the Federal Government’s revenue at the collection center level;
- **GFMAS** (Government Financial and Accounting Management System)—an integrated system which enhances financial planning, budget control, and accounting. It combines all the accounting functions including payments, receipts, remuneration control, unclaimed monies, government loans, loans and advance payments to public sector personnel, investment, and preparation of the public accounts into one integrated platform. The GFMAS is used by the accounting offices; and
- **Sistem Perakaunan Mikro**—a system that compiles, calculates, and analyzes the total actual cost of output for every program and government activity.

197. The related processes involved are payments, receipts, salaries, and procurement. A gap analysis has been performed on the existing accounting system and processes to develop a new accounting system known as 1 Government Financial Management Accounting System (1GFMAS). It is envisaged that 1GFMAS will have the following features:

- Centralized accounting system: 1GFMAS would replace the GFMAS which currently operates in a distributed environment where it is used in 36 accounting offices (inclusive of the Self-Accounting Department [SAD]) and a head office which runs on separate sets of hardware, software, and data centers. Under the new system, all functions in the eSPKB, eTerimaan, GFMAS, and the Sistem Perakaunan would be integrated into a single platform.

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33 Preface to Malaysian Public Sector Accounting Standards.
Mikro will be performed through the system in a centralized environment. This will reduce complexities and enable the AcGD to consolidate financial information.

- Integrated: There will be a single point of input or data entry and all data will be captured in the system.
- Upgraded: The SAP software is a newer version which enhances system functionality and capabilities, including the capacity to handle more transactions on a dual basis.
- Harmonized: As it maintains transactions on both a cash basis and an accrual basis.

198. The AcGD has also revised the current operating processes. Following the development of 1GFMAS, the processes were revised to optimize the functionality of the new system and to meet the requirements of accrual accounting.

199. One of the critical steps in transitioning to accrual accounting is determining the opening balances of assets and liabilities accurately. The data collection exercise started in 2013 when the AcGD developed various templates to be used by the responsibility centers. It involves a core phase and a noncore phase. The AcGD appointed an accounting firm to carry out the core phase, which involves six ministries. The noncore phase involves the remaining ministries as well as government divisions and departments which will be carried out by the officers of the respective entities. Once data is collected, in the verification process, the chief accountant in the line ministry will ensure the completeness and accuracy of data. It will then be audited and verified by the internal auditor and finally it will be approved by the secretary general of the line ministry. The opening balances of the assets and liabilities will be recognized in phases within three years from the date of adoption, as provided under the AcGD’s transition policy.

The data collection exercise involves the following steps:

- Identify assets and liabilities from existing records;
- Evaluate the adequacy of information to determine the valuation of the opening balances;
- Explore alternative resources if information is not available from existing records, such as project files and invoices;
- Calculate opening balances as of the cutoff date;
- Ensure completeness of information via alternative and/or additional processes. This includes a comparison with operation and capital expenditures, physical verification of main assets, and discussions with the relevant ministries to determine the risks or potential for unrecorded opening balances; and
- Monitor and update the records.

200. The development of a new chart of accounts is another key step in the adoption of accrual accounting. A well-planned chart of accounts can assist in the efficient generation of financial information for a variety of purposes.34 Realizing this, the AcGD looked at the new reporting structure and developed the accounting codes. These were then turned into the accounting codes manual which can be used for reference. The AcGD also performed a review of the existing financial documents, taking into consideration the new reporting structure of financial statements, the accrual accounting requirements, Goods and Services Tax requirements, value-added process, and information analysis.

4. Human Resources

201. Under the ‘human resources’ pillar, the AcGD submitted a proposal in 2013 under which the Public Service Department approved the establishment of the SAD in 15 ministries, creating 300 new positions. Before the implementation of accrual accounting, only 10 ministries had their own SADs. In each SAD, 11 new functions have been created such as accrual accounting consultancy, preparation of financial

statements, financial analysis, and asset verification. The establishment of the SAD aims to improve the ministries’ preparations for accrual-based accounting, especially with regards to data collection and change management.

202. Change management is of paramount importance in the implementation of accrual accounting as it affects many parties either directly or indirectly. The change management unit is responsible for driving the change initiatives and interventions and for providing the continuous support required for accrual accounting. Its key objectives are to (a) communicate in an effective manner (right messages at the right time to the right people); (b) minimize obstacles and resistance to increase the readiness for the change to accrual accounting; and (c) sustain the momentum of accrual accounting implementation.

203. The AcGD released a Change Management Plan (CMP) in May 2013. The objectives of the CMP included gaining the support and commitment of various stakeholders as well as ensuring stakeholders understand the impact of the change and the new and/or enhanced roles and processes. The CMP uses the approach known as ‘See-Feel-Change’ whereby it targets three key stakeholders, namely: (a) the Secretary General and top management; (b) middle management and professionals; and (c) a support group. The activities undertaken under the CMP include briefings and reports to the Public Accounts Committee on the progress of the accrual accounting project, briefings to the top management of public administration, town hall meetings with the accountant general, and engagement with the Auditor General. These were accompanied by various training events and seminars, thought leadership, as well as promotion and awareness of the benefits of accrual accounting. The unit also monitors the change management activities and training conducted by 25 ministries and the Accountant General’s state office. Between 2012 and 2015, about 535 awareness and training programs were conducted, which involved more than 25,000 participants from responsibility centers and agencies within ministries.

204. In 2012, the AcGD introduced the Change Ambassador Certification Program. This program targets the chief accountants at ministries and directors at Accountant General state offices. The roles of change ambassadors are: (a) facilitating communication within the accrual accounting project and the organization; (b) addressing the key issues, concerns, and constraints; and (c) coordinating and facilitating implementation of new processes, policies, procedures, external factors, and technology improvements.

205. The AcGD also appointed change agents in 2012. Senior accountants from 25 ministries and the AcGD state offices were appointed as change agents. The roles of change agents are to align the support group and their behavior to encourage the desired change, to undertake change management activities, and to overcome change resistance and performance improvement barriers. Change agents are also known as trainers who will train end users on how to use the new system, provide first-level support for the system, and speed up the process of technology transfer. The training approach is to train 1,000 trainers from ministries and Accountant General state offices which will be cascaded to 20,000 expert end users. The expert end users will then need to train the end users at the various responsibility centers.

206. In 2015, the AcGD also implemented the Stakeholders Management Plan (the plan). The plan aimed to promote understanding and buy in for the changes that will be introduced by ensuring that the interests and influence of the potential stakeholders are considered and managed. The plan includes:

- Identification of stakeholder individuals or groups and key influencers;
- Analysis of the stakeholders to identify and prioritize them in terms of their influence, interest areas, and concerns;
- Identification of stakeholders’ management issues that will need to be addressed and resolved in order to address stakeholders' concerns or risk to stakeholders and to leverage the stakeholder opportunities that will help to promote buy in and ownership of the changes; and
- Communications strategies that will need to be employed to address the different stakeholders involved.
To date, the AcGD has engaged various key stakeholders. They include the Prime Minister’s Department, the AGD, various departments in the MoF, and the Public Service Department. In relation to the support group, the AcGD has deployed an online Change Readiness Assessment Survey Questionnaire to trainers, end users, and officers who are responsible for the accounts and finance at ministries. The purpose of the survey is to establish a baseline for checking on change effectiveness as it measures knowledge about the accrual accounting process and the competency in using the new system. The outcome of the stakeholder management and engagement is important for the government so that it can play a proactive role when necessary to ensure the successful implementation of accrual accounting.

D. Challenges Faced in Accrual Accounting Implementation

Implementing accrual accounting is not without challenges. Significant challenges faced by the AcGD to date are as follows:

a. Obtaining the opening balance of assets and liabilities as some records were not available, incomplete, or inaccurate. There are also some complex assets and liabilities that relate to private finance initiatives and public-private partnerships, as well as military assets.

b. System development. 1GFMAS will be an integrated and harmonized system. Developing a system to integrate 25 ministries with accounting on both a cash and an accruals basis has been a challenge for the AcGD.

c. At responsibility centers, there are human resource capacity constraints in terms of accounting personnel due to budgetary restrictions and certain government policies. The AcGD also noted that a lot of public sector personnel still need to be upskilled especially in relation to accounting standards and policies. On IT system training, the AcGD would only be able to train 50,000 end users (which have a lot of modules) within the limited time frame available, i.e., by 2020.

d. Obtaining the buy in from various levels of stakeholders to minimize resistance to change.

E. The Contribution of the Malaysian Institute of Accountants (MIA) toward Accrual Accounting Implementation in Malaysia

The MIA was invited to participate in the Strategic Reform Initiatives (SRI) Lab organized by Performance Management & Delivery Unit (PEMANDU) in 2011, whereby a technical staff member participated in the lab for three months. This has contributed significantly to the Government’s move to accrual accounting. On the invitation from the AcGD, the MIA nominated a technical staff member to be a GASAC member to share insights on the application and implementation of accrual-based accounting standards. In the same year, the MIA nominated the former Accountant General as a member of the IPSASB of the International Federation of Accountants; he was subsequently selected by IFAC to serve on the board. The MIA believes that as MPSAS are adapted from IPSAS, it is crucial for Malaysia to be involved in the standard setting process of the IPSASB. This appointment provided a conduit for Malaysia to network and learn from countries currently implementing IPSASs such as the United Kingdom, Canada, Australia, New Zealand, Morocco, and Switzerland. Throughout the appointment, the MIA was able to raise implementation and interpretation issues as well as seek guidance on the implementation of IPSASB’s pronouncements.

The MIA also appointed its technical staff as technical advisors to the Malaysian IPSASB member. Through the technical advisors, the MIA provided advice and assistance before, during, and after the IPSASB meetings, undertook research, and provided input to IPSASB staff on its current projects. In Malaysia, the private sector adopts the Malaysian Financial Reporting Standards (MFRS) which are identical to the IFRS Standards in all respects other than the nomenclature. In addition to sharing experiences in the standard setting process because the MIA has been involved in various meetings and initiatives with the national standard setter—the Malaysian Accounting Standards Board—the technical staff member provides accounting guidance to members on MFRS.
211. The MIA Council approved the establishment of the Public Sector Accounting Committee (PSAC) in March 2013. The committee is chaired by the Accountant General. Membership comprises officers from the AcGD, audit firms, an accounting standard setter, an academician, and a statutory body. The committee has the following objectives:

a. To review exposure drafts and other consultative documents issued by the IPSASB and to submit comments thereon;
b. To provide input on certain current IPSASB projects when an MIA member is appointed as the IPSASB member; and

c. To contribute toward the implementation of accrual accounting in the public sector in Malaysia.

212. As more initiatives were undertaken, the MIA established a public sector accounting subunit under its technical division, Professional Standards and Practices Division. One of the roles of the subunit is to provide secretarial and technical support to the PSAC, which includes the drafting of comment letters to the IPSASB, facilitating working group discussions on the IPSASB’s consultation documents, undertaking research on current IPSASB projects, as well as identifying public sector accounting related issues in Malaysia. The subunit also provides training and awareness, undertakes engagements with various government ministries and agencies on the IPSASB’s pronouncements, and produces articles and publication on public sector accounting.

213. The MIA is a leading accounting training provider in Malaysia. As part of the MIA initiative in building capacity of accountants in the public sector, the MIA signed a MoU with the CIPFA in March 2015. The MoU will enable members of the MIA in the public sector to gain full membership of CIPFA. The MoU also creates a formal basis for cooperation and collaboration between the MIA and the CIPFA for the advancement of high-quality PFM in Malaysia. This will be achieved through joint activities in a number of areas, including advocacy for financial management reform and the provision of a range of training opportunities. The MIA has also signed a MoU with two other professional bodies, as recognized in Part II of First Schedule of the Accountants Act 1967 to facilitate its members to gain professional accounting qualifications. The MIA offers other training to the public sector such as seminars and workshops on IPSAS,mini public sector conferences, a pre-MIA conference event, as well as featuring a public sector session in its annual flagship event, the MIA International Conference.

214. The AcGD recognizes that accountants in the public sector should progress to be business partners, rather than remain as mere record keepers. As Malaysia continues further with implementation of accrual accounting, the MIA must play a bigger role on the PFM space. The MIA Council recently approved the PSAC to define and promote the roles of accountants in the PFM. As the role of accountants in the public sector will change significantly following the adoption of accrual accounting, the MIA will ensure that it provides relevant value proposition to its public sector members.

The Political Economy and Collaboration with the Private Sector/PAOs

215. The MIA and the Government of Malaysia have established a strong relationship which has contributed significantly to advancing reforms of the public financial management environment. The MIA is a key change agent which has demonstrated flexibility by adjusting its structures to influence reforms. It has provided expertise and resources to support PFM reforms. Importantly, the MIA’s nomination of a former Accountant General to the IPSASB demonstrated a joint vision shared with the Government that extended beyond merely setting the domestic agenda to influencing the international framework. Simultaneously, the Government has demonstrated that it values the contribution made by the MIA towards its agenda. The Secretary-General of the Treasury and the Accountant General have been champions and change agents in this process. Numerous collaborative approaches have been undertaken and include standard setting and training.
Conclusions
216. Forming public-private partnerships for PFM reforms is an effective way to implement reforms. These partnerships can take place in many forms. PAO engagement in public sector policy, activities, knowledge sharing, and capacity building work is a growing trend. Increasingly, international and regional accountancy organizations such as IFAC and SAFA are encouraging their member PAOs to play a role in supporting the public sector. Outsourcing public sector work to the private sectors, such as outsourcing external audit work to private auditors and engaging private sector consultants for public sector capacity building and advisory services, are other forms of engagement between the public and private sectors. The public sector is also opening positions for professional accountants with private sector exposure, such as creating centers of excellence in Pakistan for IT and external audit functions. With the introduction of the SDGs and the drive for more private sector intervention in development work, there is direct engagement by private sector companies to upgrade public sector institutions as part of their corporate social responsibility work and their contribution to the SDGs.

217. PAOs have been a major conduit of knowledge in the case studies covered in the report. PAOs that have engaged successfully with the public sector have invested in setting up the right institutional structure for dedicated support to PFM, such as the establishment of the public sector wing by CA Sri Lanka, and dedicated public sector accounting standards committees which have been set up by the PAOs in India and Sri Lanka. They have also made a concerted effort to build their capacity to support the public sector; for example, CA Sri Lanka has recruited staff with public sector experience and involved members with public sector knowledge. With the right foundations in place, these PAOs have established close links with the public sector by representing the profession in committees and bodies set up by the government, and also by raising awareness among senior public sector officials about the work of PAOs. Examples include the following, all of which have PAO representation: the Audit Board in Pakistan; financial reporting standard setting committees in Malaysia and Indonesia; and the law reform committee and boards of regulatory bodies in Sri Lanka. Other examples include the involvement of the Auditor General of Sri Lanka as an ex officio member of the PAO’s council, and the establishment of PIPFA in Pakistan as a partnership between the PAOs and the public sector. These efforts have mostly been led by reform minded, influential leaders within the PAO.

218. PAOs have supported PFM reforms in a number of ways. A widely seen service that PAOs provide to the public sector is their contribution to the public sector accounting standards setting and implementation process. They bring their vast experience of setting private sector standards to the public sector standard setting process and also provide necessary training to implement standards, as seen in all of the case studies. PAOs are also expanding their core service of offering professional courses of study from the private sector to the public sector. PAOs in Malaysia, Pakistan and Sri Lanka offer professional and technical level qualifications to public sector accountants. Efforts by PAOs to work with the education authorities to introduce accountancy education at both the secondary and university level could foster the development of a pipeline of accountants that would benefit the public sector as well uplifting the quality of public sector reporting and auditing. PAOs influence policy dialogue by engaging closely with the public sector at a high level. PAOs in Sri Lanka engage in all key legal and other reforms that affect the financial reporting, auditing and regulatory landscape of the country. PAOs in Pakistan contribute to the overall direction of public audit in the country.

219. There is potential for further engagement of PAOs to strengthen public sector PFM. One such area is dedicated support for the financial management of SOEs. PAOs could offer targeted training to SOEs and their oversight bodies on financial reporting practices, cost accounting standards, risk management and corporate governance practices. PAOs could enhance the quality of SOE audits by strengthening audit regulation, both self-regulation by PAOs and independent audit regulation of private auditors as they carry out SOE audits. Furthermore, they could strengthen corporate governance practices by supporting the government to develop robust corporate governance codes applicable to SOEs. Another potential area of support is to offer training programs drawing on private sector experiences in order to enhance both the internal audit capacity of the public sector and SOEs for risk-based audits and the capacity of audit committees. PAOs could also play a role in developing core competencies of accountants working in the public sector, such as risk management skills, in order for public sector accountants to serve as strategic partners.
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to decision makers and leaders. Training programs offered by PAOs are sustainable when they form part of a holistic public sector training strategy in which partnerships with PAOs are identified as a tool to implement the strategy.

220. The private sector has an impressive track record in implementing financial management reforms in a sustainable, effective, and efficient manner. An effective channel of knowledge transfer from these private sector practices and the provision of training support to the public sector is through private sector consulting firms. The public sector also acquires this knowledge by recruiting professional accountants with private sector exposure. Furthermore, the private sector has expanded its ‘corporate social responsibility’ work to include direct support to the public sector on PFM. As demonstrated by the case studies, such services have been effective in: (1) developing and implementing financial management information systems in a timely and effective manner; (2) supporting project management of FMIS implementation; (3) carrying out business process reviews and developing efficient procedures and robust internal control processes; (4) implementing risk-based internal and external audit methodologies and ensuring compliance with auditing standards; (5) establishing adequate legal frameworks that encourage accountability towards stakeholders; and (6) launching human resource management practices and change management to sustain reforms.

221. There are challenges when partnerships are being formed. The cost of engaging with the private sector may seem formidable. This is particularly the case where private sector support is not sought in a structured manner and with no clear long-term plans to build sustainable capacity within the government. The public sector should have a clearly structured medium- to long-term plan of engaging the private sector for PFM reform to overcome this issue. Another possible challenge is the resistance that may arise from public sector officials whose perception of the private sector is that it does not understand the public sector environment. The private sector should have dedicated organizational structures that support the public sector, staffed with qualified and experienced personnel with public sector exposure. Arrangements should be put in place to ensure that the private sector is kept abreast of public sector issues, networks should be built to engage with the public sector, and platforms created for the public sector to engage with the private sector.

222. Successful partnerships have been created only when influential reform leaders and change agents have played an active role. These risk takers and innovative thinkers from the public sector have introduced the public sector to the idea of knowledge and experience sharing with the private sector. Change agents are often people and organizations with power and influence and who hold top positions, either operating within a sector/subject of reform or working outside—such as civil societies and political leaders. Examples of change agents include the following: the Director, Department of Municipal Administration-state of Karnataka; a combination of high and working level champions of reforms from the Indonesian Ministry of Finance (MoF); the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and its public sector wing staff and council members; the Secretary General of the Treasury and the Accountant General in Malaysia; and the past and current Auditors General in Pakistan and Sri Lanka. It is essential to identify and encourage these reform leaders to embark on the journey of creating public-private partnerships for PFM reforms.

223. The public and private sectors must seize the ‘windows of opportunity’ for collaboration. Some windows of opportunity may appear on the surface to be ‘reform resistant’ events, but they can nevertheless serve as instigators or accelerators of reform in the long run. The study found windows of opportunity that were explored by the public and private sectors to enhance collaboration. The ending of the civil war in Sri Lanka created political space for scaling up PFM interventions and thereby created the need to form public-private partnerships to support these efforts. The economic crises in Pakistan and the Asian financial crises resulted in stronger development strategies which called for innovative ways of strengthening PFM, leading to greater collaboration with the private sector.

224. Knowledge sharing forums can be a catalyst for partnerships in PFM reforms. They are instrumental in creating awareness and garnering the public sector’s interest in good practices in financial management within the private sector. These forums create networking opportunities between public and
private sector staff and create a platform for sharing examples of successful public private partnerships and information on the enabling environments that support the creation of partnerships. Governments, international and regional accountancy organizations, and individual PAOs have a role to play in establishing these forums. An example of such a forum is the Financial Reforms for Economic Development (FRED), a joint initiative of the Confederation of Asian and Pacific Accountants and the World Bank’s SAR and EAP. FRED illustrates how the public and private sectors can join forces in providing the general public with accurate, reliable, and credible financial information. This biennial event brings together senior representatives from governments, Supreme Audit Institutions, and professional accountancy organizations representing virtually every country and jurisdiction in Asia to discuss how improved PFM can promote better public services, accountability, and transparency to support poverty reduction and economic growth. Such forums create thought leaders who can influence and promote a new and effective approach to strengthening PFM via collaboration with strategic partners, such as the private sector and peer institutions.

225. This is the start of a journey. While pockets of excellence on public-private partnerships were found, this is largely an uncharted course. The public and private sectors, including international, regional, and country level PAOs, are encouraged to contextualize the concept and examples and put them into operation. The study also paves the path for more in-depth studies on public-private partnerships in other areas on PFM such as procurement, integrated reporting, and public investment management and for designing a framework on innovative ways to carry out PFM/corporate financial reporting reforms.