

IMPROVING PUBLIC SECTOR FINANCIAL MANAGEMENT IN THE ASIA-PACIFIC REGION

The Confederation of Asian and Pacific Accountants (**CAPA**), the regional organisation representing professional accounting organisations in the Asia-Pacific region, in May 2011 staged a successful conference in titled “**Improving Public Sector Financial Management**” in Seoul, Korea. The Conference was co-organised with the Korean Institute of Certified Public Accountants (KICPA), and supported by various international and Korean organizations. Sponsorship was provided by the Korean Big 4 Accounting firms.

The key theme of the conference was strengthening accounting in the public sector. The Conference program provided an overview of the International Public Sector Accounting Standards (IPSAS), as well as regional case studies. The experiences of countries in various stages of transition from cash-based accounting to accrual-based accounting brought a real hands-on perspective to the program. More than 120 participants from 19 countries in the Asia-Pacific region, ranging from public servants, professionals in practice and aid agencies to academics, attended the Conference.

CAPA President, Keith Wedlock stated that the Conference represented a significant event as the first of its kind organised by CAPA. “We were very happy to be able to engage many high quality, influential, and international speakers for this Conference, including representatives from the Korean, Japanese and Chinese governments, and the IPSAS Board. Leading organisations such as the Japanese Institute of Certified Public Accountants, New Zealand Institute of Chartered Accountants, Australian accounting bodies, ACCA, the Chartered Institute of Public Finance and Accountancy (CIPFA), the World Bank, and the Asian Development Bank (ADB) were prominent.”

CAPA Chief Executive, Brian Blood also commented that the public sector was an increasingly important area of focus in CAPA’s strategy and activities. “In achieving our objectives and supporting the objectives of the global profession, CAPA recently issued a Position Statement reflecting our commitment to public sector financial management. This Conference supports our stand in this important area. CAPA is looking at opportunities to stage similar regional Conferences in the near future or other activities demonstrating our commitment in this area.”



Photo 1: 1st and 2nd from left - KICPA President, Ou-Hyung Kwon, and Director General, Jaeseek Park seated with speakers

The Conference opened with an address by Director General, Jaeseek Park, from the Ministry of Strategy and Finance of Korea. He presented an overview of the Korean Government’s accounting reform system and the three-year roadmap towards a new accounting system. A case study of the

Korean government's journey of improvement delivered by Sang Ro Kim, Senior Officer at the National Accounting Standards Centre of Korea set out the key steps.

The case for 'Strengthening Accounting in the Public Sector' was put from two different perspectives, firstly by Tony Hegarty of the World Bank, then by Professor Andreas Bergmann, Chair of the IPSAS Board. Hegarty stated that the World Bank has a vision of 'a world free of poverty', and for this to be achieved, governments must be held accountable for using resources economically, efficiently, and effectively. "To that end, the financial management capacity of partner countries must be enhanced to provide reasonable assurance over the use of donor funds," he added.



Photo 2: Left to right - Prof. In Ki Joo with Tony Hegarty and Andreas Bergmann, taking questions from the audience

Professor Bergmann reflected that financial crises are caused by a lack of **transparency**, and stressed that the accounting profession has the methods and concepts to improve that transparency and decision-making through the usage and guidance of IPSAS, ultimately reinforcing **accountability** – a key responsibility for legislators and public officials. According to Professor Bergmann, the full suite of IPSAS standards has been developed for world-wide application to deliver that transparency and accountability to citizens. This theme was later covered by Tadashi Sekikawa, a member of the IPSAS Board, who gave an overview of both the accrual and cash basis of accounting, particularly where IFRS standards do not effectively address public sector issues, for example, revenue and transfer revenue recognition.

Participants agreed that the highlight of the Conference was the session '**Journey to Improvement**' – a series of five case studies with discussions ranging from the New Zealand experience over some twenty years, the mid stream position of Japan, to the contemporaneous programs of Korea and China. Further, the case examples of developing nations including Lesotho and Nigeria reinforced the involvement of the profession and education as facilitators of change. These were later supplemented by case studies from a UK perspective in the session on '**Managing the Transition to Accruals**'.

Importantly, the Conference presented a range of issues and processes that are the building blocks in improving public sector financial management. They are:

- Any change in the public sector financial management process needs a **clear vision and will** of legislators and senior officials towards the imperative for accountability, transparency, and good governance. This is usually implemented with **legislation** to mandate the transition to enable better decision-making in public sector undertakings, improved financial systems, guidance, and reporting.
- The proposed **change processes must be well-planned** with due regard for all stakeholders, and importantly, allowing realistic time horizons.
- It is crucial to have **financial information systems** to enable management information to be readily utilised and facilitate drawing of agency level information into central or consolidated whole

of government accounts; and such systems require significant capital investment, programmed implementation, and education for users.

- The process of **integration and reconciliation** of financial information with cash based budgetary systems is extremely important at an agency level and whole of government level, and appropriate systems must be developed to facilitate critical budgets and forecasts.
- **Education of public sector managers** during the process of change is critical to ensure success. Similarly, legislators must be involved in the education process to understand the implications of information they are dealing with.
- An **oversight body** should be appointed to ensure agencies perform in the transition, to provide technical and practical implementation support, research, and consultation on a day-to-day basis.
- **Supreme Audit Institutions** have a critical role in supporting public sector governance, accountability, and compliance. They must take active roles with agencies and central government in all aspects of financial management, improvement processes, and education, with experience in identifying areas for improvement and providing suggestions for rectification.
- Similarly, as in the private sector, parliamentary **audit committees** or Public Accounts Committees must play a key role in ensuring that the process of financial management, reporting, and auditing are first rate.



Photo 3: Seated left to right – Brian Blood, CAPA Chief Executive, and Sang Ro Kim, Senior Officer of the Korean National Accounting Standards Centre; standing - Lou Hong, Deputy Director General from the Treasury Department, Ministry of Finance presenting China's case study



Photo 4: Left to right – speakers Tony Dale, Alan Edwards, and Hidetaka Tabata taking questions from audience

While discussions have been steered towards accrual accounting being the solution for public sector accounting, the cash basis is utilised in many jurisdictions and is recognised through certain IPSAS standards. Whilst the financial reporting benefits are significant, experienced public sector financial managers see some of the greatest gains as being able to determine the **true cost of programs** and activities, as indicated by Neil Wallace of the ADB in the concluding session. Ultimately, this delivers better information for economic planning and **decision-making** at both the agency and whole of government levels.

The accounting profession has significant international experience and capacity to support the development of public sector financial managers. Access to international experience, benchmarking, and support should be sought through engagement with organisations such as IPSAS, the International Federation of Accountants (IFAC), and CAPA which could facilitate sharing of knowledge with other experienced nations.

The Conference was followed by a high-level Roundtable discussion hosted by the National Accounting Standards Centre of Korea and attended by representatives from government departments of participating countries, CAPA representatives from corresponding countries, conference speakers and experts from the profession. The Roundtable provided a great opportunity to share experiences.



Photo 5: Participants at the Roundtable discussion

Materials from the Conference are available in the library section of the CAPA website at this address: <http://www.capa.com.my/article.cfm?id=496>



POSITION STATEMENT

The Confederation of Asian and Pacific Accountants (CAPA) fully supports and encourages the convergence towards International Public Sector Accounting Standards (IPSAS) by all member countries in the Asia/Pacific region to assist in the improvement of public sector financial management.

Users of financial reports produced by the private sector have, for many years, demanded and supported the development of globally accepted high quality financial reporting standards. These users have included regulators and central government agencies. This has resulted in an increasing number of countries adopting and implementing IFRS as the financial reporting norm for the private sector.

Concurrently there is a growing international movement to improve financial reporting in the public sector. This has resulted in many countries initially adopting cash based accounting; moving to a more sophisticated accrual basis for financial reporting; and finally a number are adopting and implementing accrual based IPSAS.

Improving the quality of financial reporting in the public sector is viewed by CAPA as critical in addressing the huge risks, such as unexpected sovereign debt crisis situations that may remain obscured, when robust accounting and reporting techniques are not used in the public sector.

From a public interest perspective the more effective monitoring of financial performance within public sector entities is critical. CAPA supports accrual based financial reporting as the only means to provide the necessary high quality, transparent reporting of public sector activities and position.

Achievement of this ensures that the same high standards of financial reporting are applied by both the private and public sectors of an economy – thus leading to better informed decision making at both the micro and macro levels.

CAPA therefore calls for governments in the Asia/Pacific region to fully recognise the need for robust financial systems, and to lead changes in public sector accounting and reporting to support enhanced public sector financial management.