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Case Study: Adoption of International Public Sector Accounting Standards in the Philippines

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Objectives of the case study

Governments around the world continue to face pressures to improve their reporting infrastructure so as to facilitate better financial management and achieve greater transparency and accountability. For many governments in the developing world this has taken the form of moves to adopt International Public Sector Accounting Standards (IPSAS), as part of their public sector financial management reforms. As governments make the transition to IPSAS, they are keen to understand good practices and identify the lessons learned from other jurisdictions. To assist in this, the United Nations Conference on Trade and Development (UNCTAD) and the International Federation of Accountants (IFAC) have commissioned the development of this country case study. Case studies are intended to be of practical use to jurisdictions that are considering or have made the decision to adopt IPSAS. The ambition is that they will stimulate dialogue and cooperation amongst public sector financial management reformers with an interest in the adoption of international standards.

Government accounting and reporting varies from jurisdiction to jurisdiction reflecting national public finance systems and practices. It is important to recognize these differences, therefore, and to acknowledge that, when it comes to adopting and implementing standards regimes such as IPSAS, it is rare for one size to fit all. Moreover, research carried out by UNCTAD, IFAC and others shows that many of the countries that have already started the journey towards implementation of IPSAS are somewhere between cash accounting and full implementation. These factors suggest that it is not possible to copy the approach taken by one country and apply it directly to another. However, the policy guidelines and transitional steps that may be required, together with the need for capacity building throughout the change management process, could be common ingredients contributing towards successful IPSAS implementation. There are, therefore, potentially valuable lessons to be learned from the experiences of those countries that have made the journey towards implementation of IPSAS, provided that those lessons are learned in the context of the situation facing each jurisdiction. A fundamental objective of this case study, therefore, is to stimulate that learning on the part of countries making the journey.

Executive Summary

Against a background of an economy that was growing rapidly, the 2016 PEFA report highlighted the need to strengthen the PFM system in the Philippines to provide information of value to managers delivering public services. This need was reinforced in the *Philippine Development Plan 2017-2022*. Whilst changes to other components of the PFM system were also required, creating capacity to produce financial statements based on international standards was seen as important. Government therefore decided to adopt *International Public Sector Accounting Standards* and began this process formally in 2014. This decision also reflected a clear perception in government that the existing national standards regime needed to be updated.

Changes in financial reporting meant changes in the accounting arrangements applicable at all four levels of government in the Philippines. A significant factor in this was the variety in scale of accounting units throughout government. That the country consists of an archipelago of more than 700 islands brought its own complications to the process.

The change process was led by the Commission on Audit (COA), whose constitutional responsibilities included accounting and financial reporting. This was carried out in a relatively complex accounting and auditing environment, with 10 bodies operating nationally and an equivalent number of international bodies with a presence in the country. This offered opportunities to draw on a wide range of expertise and experience. However, it also represented potential for delay. The COA adopted a relatively "light touch" with regard to involvement of third parties, preferring to draw on its own experience of accounting and auditing in government in the country.

Given the interconnected nature of budgeting and accounting, it was necessary to draw on the expertise of the Department of Budget and Management (DBM). This helped to ensure that changes made to accounting systems took full account of their potential impact on budgeting.

Work to adopt IPSAS was carried out in a number of stages. The decision to adopt or not each Standard was taken based on rigorous consideration of a number of factors, including the relevance of the Standard and the legal position in the country at the time. Accordingly, 25 *Philippines Public Sector Accounting Standards* (PPSAS) were adopted in January 2014. Others, including updates to the first tranche, followed after that.

Adoption of IPSAS involved a significant amount of effort and did not take place without some delay to original plans. There was a significant need to strengthen capacity throughout government, that led to an extensive training program led by COA and involving finance staff at all levels of government. More than 21,000 members of staff took part in these training courses, a highly significant effort, particularly given the need to maintain current operations whilst these changes were being introduced.

Work to complete the introduction of IPSAS continues in the Philippines. This is likely to become a standing activity, as new standards are introduced, and existing ones updated. COA intends to supplement this work with the introduction of Whole of Government Accounts (WGA).

Alongside the introduction of IPSAS ran a number of other finance initiatives in government, including introducing and later extending the New Government Accounting System (eNGAS) and eBudget system, which is now available for use by all levels of government. Since the initiative was led by COA, it ran in parallel with the adoption and implementation of 43 *Philippines Public Sector Standards of Audit*.

This case study illustrates a number of important points in relation to adopting and implementing IPSAS. The work to produce the Philippines Standards themselves almost pales into insignificance when placed

alongside the training required. The timescale required to implement the current body of Standards should not be underestimated. Starting in 2014, work is expected to continue through until 2020, and may well proceed beyond that point. Adoption of IPSAS is not a conventional project in that it has an end point: there is no such end point in an environment of almost constant change. The scale and complexity of the task means that conventional project planning tools are not relevant, given the need for flexibility. New systems introduced need to be integrated closely with existing ones, and with other new systems as these are developed. Resources are not unlimited, and the staff involved in the adoption and implementation processes are often also the ones with significant commitments in relation to operational tasks. And it ought to be recognized that accounting and financial reporting do not take place in a vacuum. They have to be closely integrated with other performance measurement and management systems, and their benefits clearly identified and measured.

The experience in the Philippines, whilst offering the potential for lessons for other countries, is necessarily characterized by the circumstances of the country itself. Other countries will need to factor in their own circumstances and adapt the lessons accordingly. And it should always be recognized that whilst the case for producing financial statements based on international standards stands on its own merits, this can often lead to the surfacing of information that had not previously been apparent. This can have political as well as technical ramifications.

A number of key messages emerge from this case study:

- Adoption of IPSAS needs to be matched to the structure of government in a country and reflect the resources available to each sphere of government.
- Training needs will vary according to the nature of government in its various spheres. In particular, where there is significant citizen involvement in the work of government, this will present a particular training need.
- The form and content of training should vary according to the nature of the accounting activity taking place. Specifically, relatively routine capturing and processing of transactions at the “front line” will require a greater emphasis on the nature of the tasks to be carried out and less focus on the wider accounting and financial management context.
- Variety of training need is likely to have a significant effect on the form of training materials required. The resource implications of this should not be underestimated.
- The various actors forming the wider accounting and auditing environment will have a natural interest in the introduction of accounting standards. The nature of this interest will vary both with the actor concerned and with the extent to which government has a tradition of involving those actors in its work.
- A history of low involvement of the wider accounting and auditing community in public financial management may mean that time has to be devoted at the outset to establishing new roles and relationships. That may include educating the wider community in how government works, particularly where that community serves mainly the private sector.
- Implementing accounting standards requires the commitment of significant resources. Where these are scarce in government, the accounting profession may be prepared to support efforts. Where there is a need to encourage the profession to get involved, highlighting the opportunities may represent a productive way forward.

- Where the profession in a country has experience implementing standards in the private sector, this represents a valuable resource on which to draw.
- Implementing accounting standards will require the commitment of significant resources over an extended period of time. The need for this should not be underestimate. It also represents a continuing commitment of resources to maintain and develop those standards much more than as a one-off project. Government has to be prepared to recognize this and commit those resources over the longer term.
- The complexity of the planning and implementation processes will demand considerable flexibility on the part of government. This may present particular challenges to planning regimes that regard deviations from the plan as undesirable, which many conventional project planning systems do.
- It is almost impossible to underestimate the volume of resources that will be required for training. Whilst this will vary with the size and nature of government in any country, so too will the resources available. The relative nature of the task is therefore likely to be similar in all countries.
- Implementation of accounting standards will require extensive integration with existing and new systems. Where the wider public financial management environment is dynamic, this will almost certainly mean an increase in complexity. This will show itself in a number of ways, including in the extent to which new systems will present integration problems due to a changing accounting environment.
- Governments considering the adoption and implementation of accounting standards should be clear on the benefits they expect to achieve. Not doing so risks positioning accounting as something that is distinct from, and unconnected with, the “real” work of government. This requires educating citizens, civil society organizations, media and other non-government actors in the nature and role of public sector accounting, and finding ways to present financial reports that is understandable to that wider audience. Benefits need to be designed into the system from the outset.
- The implementation of accounting standards will inevitably involve the construction of “scaffolding” throughout the implementation period. Some of that scaffolding may eventually become a permanent fixture. Other aspects may have to be removed in time. The resources to achieve this should be taken into account during the planning and implementation phases of work.
- There will be limits to the extent to which governments may draw on experience elsewhere to determine its own approach to implementing standards. There are no blueprints for work of this kind, and those with a key role in designing the approach to implementation must recognize this from the outset.
- Implementing accounting standards may reveal positions and practices that have negative connotations, particularly for politicians. Designers and implementers need to recognize this and ensure that they do all that they can to secure the commitment of key role players to the process.

The country context

A dynamic, growing economy

The Philippines is one of the most dynamic economies in the East Asia and the Pacific region. With increasing urbanization, a growing middle-income class, and a large and young population, the Philippines' economic dynamism is rooted in strong consumer demand supported by improving real incomes and robust remittances. Business activities are buoyant with notable performance in the services sector including the Business Process Outsourcing, real estate, and finance and insurance industries.

Sound economic fundamentals and a globally recognized competitive workforce reinforce growth. Having sustained an average annual growth rate of 6.3% between 2010-2016 from an average of 4.5% between 2000-2009, the country aims to move from being a lower-middle income country in 2016 to upper-middle income status in the medium term[1].

At time of production of this case study the Philippine economy was estimated to be growing at its potential, making productive investment in physical and human capital essential so that growth can continue. Investment growth hinges on the government's ability to implement its ambitious public investment program. That in turn will depend to a significant extent on the state of the public finances. Adoption of international public sector accounting standards has the potential to represent a key step in the process of strengthening PFM in the country, and creating the climate of confidence on the part of investors that will be essential if the government's economic growth plans are to be realized.

The need to improve jobs and earnings

Although, in recent years, unemployment has reached a historic low underemployment remains high, near its 18%-20% decade-long average. The majority of Filipino workers who transition out of agriculture generally end up in low-end service jobs. This leads to lackluster growth in real earnings. Measures to generate good jobs and better wages are therefore essential to achieve shared prosperity. This reflects one of the reasons why the World Bank's *Country Partnership Strategy (CPS)* for the Philippines from 2015-2018 revolves around the theme "Making Growth Work for the Poor," supporting the country's goal of inclusive growth that reduces poverty and creates more and better jobs that raise real wages. Reflecting the key role that government's PFM activities play in relation to economic growth the CPS also supports transparent and accountable government: strengthening public financial management, improving fiscal transparency and financial accountability, and supporting greater citizen demand for government accountability. Here too the introduction of international accounting standards could make a key contribution to the achievement of these aims.

Strengthening PFM: the 2016 PEFA Report

The latest PEFA report[2], dating from 2016, identified the urgent need to strengthen the capacity of the PFM system to provide information of value to managers in the delivery of public services.

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1 Source: Philippines Country Team, World Bank East Asia and Pacific Region, International Finance Corporation, East Asia and Pacific Department, Multilateral Investment Guarantee Agency. *Country Partnership Strategy for The Republic of the Philippines for the Period FY2015-2018*, May 14, 2014.

2 International Bank for Reconstruction and Development, *Republic of the Philippines, PFM Strategy Implementation Support, Public Financial Management and Accountability Assessment*, June 2016.

> *The lack of capacity of the accounting system to assist budget managers with timely information…needs urgent attention. Continued development of a comprehensive, integrated accounting and financial information system can provide tools for monitoring and analysis that would allow timely decision-making to enhance efficiency in budget execution and effectiveness in service delivery. A substantial investment of resources, skills, and authority is required to achieve such outcomes.*

With regard to accounting and reporting in particular the Assessment noted that:

- systems and processes did not rate well, with both financial integrity processes and in-year budget reporting requiring "substantial improvement";
- most financial reporting was done through the use of spreadsheets, that lacked the controls that would normally be found in a well-designed FMIS and that would ensure data integrity;
- most Departmental annual accounts were qualified, and therefore did not provide government with assurance as to the reliability of the annual accounts;
- the computerized *New Government Accounting System* (NGAS) was being rolled out to many agencies but had not at that time reached all, whilst at the same time it was being further developed and updated;
- the qualifications attached to the Departmental accounts meant that it would not have been possible to provide an opinion on the whole of government accounts, something described as "a continuing significant defect in the annual financial accountability framework".

In relation to the indicators for external scrutiny and audit the Assessment made it clear that this pillar of good governance needed to be strengthened. Although the external audit performance, as exemplified by the Commission on Audit (COA) was described as "strong", revenue audit was incomplete and the absence of a formal scrutiny process at the legislature meant that the oversight function in the budget cycle was incomplete.

The formal PEFA Assessment therefore identified the following "main concerns" that needed to be addressed to improve the delivery of budget outcomes:

- **Fiscal discipline**: failings and delays in reconciliations between budget execution and accounting systems resulted in inadequate monitoring, and affected budget delivery.
- **Resource allocation**: at the time of the report an FMIS was under development; the procurement process had no independent complaints mechanism; and in practice budget allocations were increased despite limited absorptive capacity in spending departments;
- **Service delivery**: there were inadequacies in internal control; and financial reporting and oversight were insufficient to provide assurance on service delivery as envisioned in the budget.

The Assessment Report did acknowledge that government was in the process of implementing its *Reform Roadmap*[3]. It also noted that the *Good Governance and Anti-Corruption Cabinet Cluster Action Plan 2013-2016*[4] included several PFM-related activities. In particular the Report noted that the PFM reform programmed included activities intended to bring about improvements in a number of areas relevant to the Assessment, including:

- automating financial management processes in large spending agencies;

[3] Government Integrated Financial Management Information System (GIFMIS) Committee, *Philippine Public Financial Management REFORM ROADMAP: Towards Improved Accountability and Transparency 2011-2015.*

[4] Government of the Philippines, *Good Governance and Anti-Corruption Cabinet Cluster Action Plan 2013-2016*.

- introducing a government integrated financial management information system (GIFMIS);
- supporting departments to improve their internal controls, risk management, and internal audit functions; and
- pilot-testing a PFM competency framework.

Towards a strengthened PFM system: the Philippine Development Plan 2017-2022

The *Philippine Development Plan (PDP) 2017-2022*[5] is the first medium-term plan to be based on the national long term vision for a "strongly-rooted, comfortable and secure life" as set out in *AmBisyon Natin 2040*. It seeks to lay a strong foundation for more inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy. In his introduction to the Plan, President Duterte emphasized the need for a "bold vision and effective development planning", based on a "forward-looking approach that goes beyond a single administration". The plan commits to increasing transparency and accountability in governance, with greater trust in government seen as important if the Plan is to be successful. This trust is to come about, in part at least, through "people-centered, clean and efficient governance". Citizens who obey the law will willingly pay the correct taxes in the firm belief that government will prudently manage the fiscal resources. For its part a clean and efficient government will be able to allocate adequate resources for public goods and services. Trust in government is therefore seen as a "cornerstone of a high-trust society".

The PDB was not developed in a vacuum. It followed a previous Plan that had set out ambitious targets for a number of aspects of governance focused on increasing transparency, participation of citizens in the work of government and accountability. Although there were significant achievements deriving from the previous Plan, government has recognized that much still remains to be done. Platforms to promote the participation of citizens in the governance process, like the *Bottom Up Budgeting* initiative, were established. However, take up by the public showed room for improvement. COA's *Citizen Participatory Audit* (CPA) program was intended to "open the audit processes to citizens and CSOs" in the expectation that this would lead to improvements in efficiency and effectiveness in the use of public resources. However, the CPA and similar initiatives were under-utilized by the general public. Where government data was made available to citizens and civil society organizations, including through the Open Data portal, uptake was limited by the absence of contextual information. Despite the volume of government data made openly available "it was still difficult to gauge the performance of the sector". With particular regard to the subject matter of this case study, whilst measures to improve public service delivery and accountability were enhanced, compliance with standards remained low. Amongst other issues highlighted in the PDP, the need to improve the linkage of planning, budgeting, cash management, accounting and auditing across the bureaucracy is seen as a particular challenge. Crucially and fundamentally "inter-operability remains an issue", as this quotation from the PDM shows very clearly:

> *…the Government Integrated Financial Management Information System (GIFMIS) has not been fully established. Gaps in the Information and Communications Technology (ICT) environment for financial control and accountability also need to be addressed. Moreover those that have been proven effective must be institutionalized, preferably through legislation".*

This latest version of the PDP continues to address issues related to capacity in relation to PFM. In response to this, in 2015 the Department of Budget and Management (DBM) launched a pilot implementation of the country's first *PFM Certificate Program*. Designed around a curriculum based on the

[5] National Economic and Development Authority, *Philippine Development Plan 2017-2022*, 2011

government's *PFM Competency Frameworks* that defined the Behaviors, Attitudes, Skills and Knowledge expected of public finance staff working in government in the country the program was intended to "deliver learning solutions to PFM practitioners to boost their job performance and support their career growth".

Overall in relation to public sector governance the PDM illustrates the need to "strengthen results-based performance management, public financial management and accountability". Continuing efforts to strengthen capacity in public finance staff is seen as a key element of this intention.

Implications for the introduction of public sector accounting standards

To the extent that economic growth depends at least in part on foreign investment, the introduction of financial reports based on internationally accepted public sector accounting standards ought to represent a positive development. Where foreign investors make choices with regard to the countries in which to invest, the ability to compare public expenditure across countries, which can only be possible where similar standards regimes are in place, ought to help make investment decisions easier and more transparent.

The weaknesses identified in the latest PEFA report are not all related to the then lack of accounting standards. The need to link budget and accounting information speaks as much of systems needs as of the need to adopt accounting standards. However, if this close integration is to be achieved in practice then it will be necessary to ensure that the budget system and the accounting system are expressed in the same "language". As is developed later in this case study, recent developments in relation to the Budget law suggest that this ideal state is still far from being achieved in practice. Whilst this state of affairs continues, it will emphasize the primacy of budget execution over accounting, and tend to undermine the benefits to be derived from the introduction of accounting standards.

The PDP contains a number of ambitious and far reaching reform intentions. Implementing these changes whilst at the same time introducing public sector accounting standards and, in time, moving towards the production of whole of government accounts, has the potential to place considerable strain on the human and other resources that will be necessary to implement the reforms. The adoption of competency frameworks for PFM staff is a welcome first step: however, it will be important to ensure that these new skills are deployed in the right direction, and that the frameworks are maintained and developed in a rapidly changing environment.

Guidance for other countries considering the adoption and implementation of IPSAS

The PDP represents a substantive basis on which to design and implement budgeting and accounting systems. The existence of such a document therefore guides the outputs that may be expected from a standards-based accounting regime, and how this ought to be integrated with the budgeting system. Countries that do not have an equivalent document will likely be faced with the task of discerning government's future development intentions from a wide range of documents and statements dealing with specific aspects of development. Absent a single, consistent statement of future development intentions, that process will also have to contain mechanisms for reconciling and resolving the contradictions and omissions that will become apparent from a review of individual documents.

A document like the PDP will almost certainly be based on its own priorities and sequence of intended events. These will almost certainly need to be reconciled with the pathway to be taken with regard to implementing IPSAS. It may be therefore that some modification to an otherwise more desirable pathway for implementing IPSAS will be required to maintain the necessary degree of consistency with the nature, sequence and rate of changes expressed in the PDP.

The structure of government

The Philippines is a republic with a presidential[6] form of government. Constitutionally power is divided equally amongst the Executive, the Legislature and the Judiciary. The Legislature consists of two chambers: the Senate and the House of Representatives, collectively referred to as Congress. Senators, of whom there are 24, are elected by qualified voters in the whole country. The House of Representatives consists of about 250 members, elected from legislative districts in the provinces, cities, and municipalities, and representatives elected through a party-list system of registered national, regional, and sectoral parties or organizations.

The President and the Vice-President each serves a single, six-year term, and may not be re-elected. The President receives advice from a Cabinet, whose members include the Vice President and the heads of executive departments. Cabinet members are nominated by the President and must be confirmed by the Commission of Appointments.

The President may veto laws passed by Congress. Congress confirms or rejects the President's appointments and may remove the President from office in exceptional circumstances. The Justices of the Supreme Court, who can overturn unconstitutional laws, are appointed by the President and confirmed by the Senate.

The 1987 Constitution created three Commissions: the Civil Service Commission; the Commission on Elections; and the Commission on Audit. As is more fully developed later, the primary constitutional function of the Commission on Audit is to examine, audit and settle all accounts and expenditures of the funds and properties of the government. The Commission proper consists of a Chairperson and two Commissioners[7], appointed by the President. The term of appointment is seven years, and members may not be reappointed.

Administrative divisions of government

There are four main administrative divisions of government in the Philippines, from highest to lowest:

- Autonomous regions[8];
- Provinces and independent cities;
- Municipalities and components cities;
- *Barangays*

These administrative divisions are often referred to collectives as *Local Government Units* (LGUs).

There are other divisional forms of government in the Philippines, although none have their own budgets. For example the national government groups provinces and independent cities into *regions*, and *Barangays* may be further sub-divided. Other administration divisions exist in relation to specific functions of government. For example there are *school districts* formed by the Department of Education and *engineering districts* formed by the Department of Public Works and Highways.

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6 The President is both head of State and head of government.

7 These must be either a Certified Public Accountant or a lawyer.

8 Autonomous regions have political powers beyond those held by other regions. At present there are two autonomous regions: the Autonomous Region of Muslim Mindanao (ARMM) and Cordillera Central. However only ARMM has been approved by voters in a plebiscite, and therefore Cordillera Central effectively functions as a regular region.

At time of writing there were 120 primary-level LGUs (Provinces and independent cities, including the National Capital Region of Manila) under the general administrative supervision of the President.

Provinces

Provinces are headed by a Governor and have a legislature, the *Sangguniang Panlalawigan*. Members of the legislature are elected from districts that are, in the main, contiguous with the Congressional districts.

Cities may be either *component cities* i.e. forming part of a Province, or *independent cities*, those that do not fall within the jurisdiction of a Province. One key difference between these two forms of cities is that independent cities do not share their tax revenues with the provincial government. Cities are headed by a mayor.

Municipalities

With the exception of *Pateros* and *Metro Manila*, municipalities always form part of a province. Like cities, municipalities are headed by a mayor.

Barangays

Barangays are the lowest sub-division of government in the Philippines, and are headed by a captain.

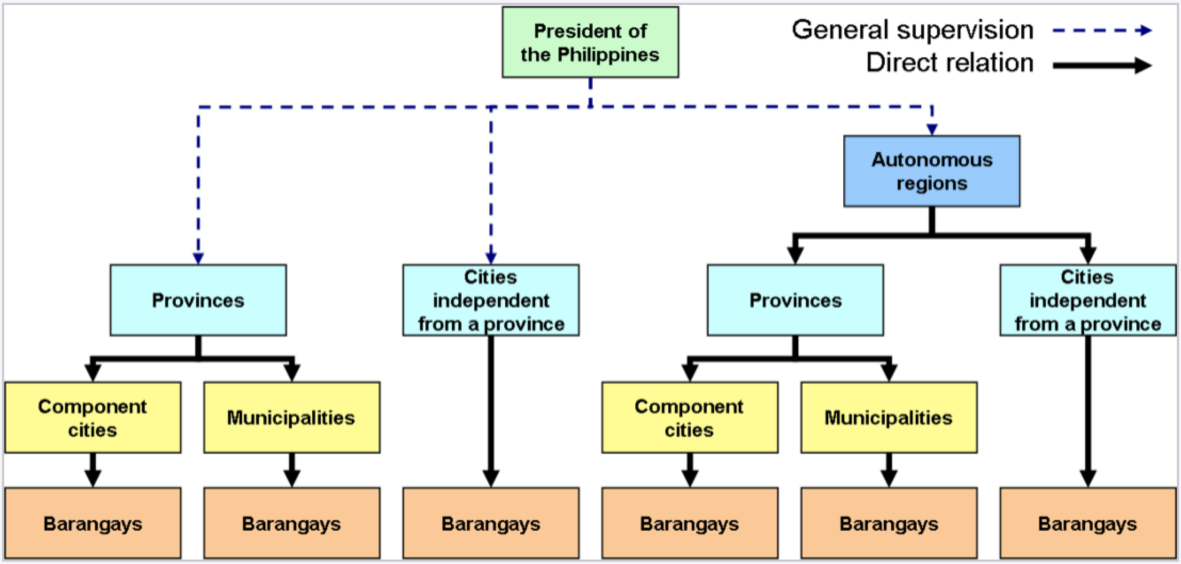
Financing government expenditure[9]

LGUs collect around 30% of their revenue from own resources, primarily local tax revenues, fees, rents and charges. The balance of about 70% of revenue comes from national government, in the main their share of National Tax Collection. At the national level, around 96% of revenue comes from taxation, with taxes on income and profits producing about 43%, taxes on domestic goods and services, including VAT and excise duties, comprising 35% and taxes on international trade and transactions producing about 22% of the total tax collected. Non-tax revenues are relatively small, about 5% of total revenues.

At time of writing the 2019 Projection of Total Revenues to be collected by national government was PHP 3,326,515 million (approximately USD 61,573 million).

Graphic: Local government structure in the Philippines

[9] Data sourced from *Budget of Expenditures and Sources of Financing (BESF) 2017*, Table C1 *National Government Revenues: Revenue Program, By Source FY2015-2019* at https://www.dbm.gov.ph/wp-contents/uploads/BESF2017/C1.pdf.



Local government hierarchy. The dashed lines emanating from the president means that the President only exercises *general supervision* on local government.

Implications for the introduction of public sector accounting standards

Systems to underpin accounting and financial reporting depend for their efficiency and effectiveness on relatively uniform environments to be modelled. Although the structure of government in the Philippines is largely homogeneous, there are inevitably difficulties introduced when a single accounting system has to be implemented in a real world environment where there is local variation.

The variety of scale of government accounting units is a significant factor in the introduction of public sector accounting standards. The large, relatively well-resourced Provinces find it easier to absorb change than do the much smaller and less well-resourced *Barangays*, for example. Introducing change into an environment like this places its own demands on the approach to change. What is appropriate for Metro Manila, for example, is unlikely to work without some modification in a *Barangay*.

The Philippines is an archipelago of more than 7,000 islands. This places its own demands on systems design and implementation, not the least of which are due to geography, logistics and communications infrastructure.

The constitutional role of the Commission on Audit, in particular its responsibility for both accounting and auditing in the public sector, has the potential to cause tension. Best international practice is for the Supreme Audit Institution to be constitutionally separate from the executive arm of government. Where this is not the case then additional organizational and other arrangements are necessary to ensure the separation of duties that is inherent in the requirements of best practice.

Guidance for other countries considering the adoption and implementation of IPSAS:

It is essential that countries adopting and implementing IPSAS do so in a way that matches the structure of government in that country. Where sub-governmental units are relatively well resourced and equipped to produced reliable and accurate accounting information this will make the task of the central planning, implementing and coordinating body much simpler than would be the case where such resources are relatively weak. There will also be implications for the nature and form of the training that will be required. Where “front line” sub-governmental units depend significantly on the efforts of local citizens, there will be a different training requirement than will be the case where staff are employees of government. That difference will be reflected not only in the nature of the training to be done but also perhaps in the timing of such training: citizens may have “day jobs” that will prevent them from attending training courses during the day, and may have limited time available to attend training in the evenings and weekends.

As one proceeds from central government departments through regional and municipal units of government to front line teams there is likely to be a reduction in the complexity of accounting carried out at each level. In particular, on the front line there may be relatively little need for staff to understand all aspects of the distinction between cash accounting and accrual accounting, for example. Whilst this does not remove the need for those being trained to be aware of the context of the subject matter of the training, it does suggest a need for a “lighter touch” in how that context is described.

The need to produce training materials for use at multiple levels of government has resource implications. Whilst it may be possible to have some standardization of some materials, it is almost inevitable that there will be significant variation. That will mean additional materials being developed, and existing materials adapted, perhaps significantly.

The accounting and auditing environment

Accounting was legally recognized as a profession in the Philippines when the sixth Philippines Legislature approved Act No. 3105 on March 17, 1923. This law created the Board of Accountancy (BOA) of the Professional Regulatory Commission (PRC), vested with authority to promulgate rules and regulations, to set professional standards for the accounting profession and to issue certified public accountant certificates to those who qualify in accordance with the requirements of the law.

The Accountancy Act of 2004 ("the Act") and the rules and regulations made under it formally recognizes four sectors of the accountancy profession:

- Commerce and Industry;
- Public Practice;
- Government; and
- Education/Academe

Given recognition likewise in the Act are the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council) and the Auditing and Assurance Standards Council (AASC, formerly the Auditing Standards Practices Council) as the official standard setting bodies of the profession. The Philippines adopts and follows International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Standards of Auditing (ISA) and the International Code of Ethics for Professional Accountants.

The Philippines adopted IFRS-based standards for commercial entities as Philippine Financial Reporting Standards (PFRS) in 2005. PFRS are fully converged with IFRS except for the deferral of IFRS Interpretations Committee (IFRIC) 15, Agreements for the Construction of Real Estate, which is to become effective as PFRS 15 in 2018. All companies (listed, non-listed, corporations, banks, insurance) are required to adopt PFRS, except for those defined as SMEs for which the required standard is PFRS for SMEs (based on IFRS for SMEs with no differences). Micro entities have the option to use as their financial reporting framework either the income tax basis, accounting standards in effect as of December 31, 2004, or PFRS for SMEs.

IFRS are renamed as PFRS when adopted by the Philippine Financial Reporting Standards Council (PFRSC). Whenever new standards or amendments to existing standards are issued by the International Accounting Standards Board (IASB) or IFRIC, these are tabled for discussion in the PFRSC then approved by the BOA and adopted by the SEC.

The accounting and auditing environment in the Philippines consists of a number of actors. The principal role players are described in the following sub-section.

The Professional Regulatory Commission

The mandate of the Professional Regulatory Commission (PRC) of the Philippines is to regulate and supervise the practice of those professionals (except lawyers, who are handled by the Supreme Court of the Philippines) who constitute the highly skilled manpower of the country. It acts as the umbrella organization for 43 Professional Regulatory Boards (PRBs) that exercise administrative, quasi-legislative and quasi-judicial powers over their respective professions. The 43 PRBs:

- Prepare the contents of licensure examinations;

- Determine, prescribe, and revise the course requirements;
- Recommend measures necessary for advancement in their fields;
- Visit and inspect schools and establishments for feedback;
- Adopt and enforce a code of ethics for the practice of their respective professions;
- Administer oaths and issue Certificates of Registration;
- Investigate violations of set professional standards and adjudicate administrative and other cases against erring registrants; and
- Suspend, revoke, or reissue Certificate of Registration for causes provided by law.

The Philippines Financial Reporting Standards Council

Accounting standards applying to all entities with public accountability in the Philippines are adopted by the Philippines Financial Reporting Standards Council (PFRSC) and approved by the Securities and Exchange Commission (SEC). The PFRSC has formed the Philippine Interpretations Committee (PIC), which issues implementation guidance on PFRSs. The PFRSC has adopted most IFRSs, in some cases with modifications. These standards are known as Philippine Financial Reporting Standards (PFRSs) and Philippine Accounting Standards (PASs).

The Philippines Securities and Exchange Commission

The Philippines Securities and Exchange Commission (PSEC) having jurisdiction and the power to supervise all corporations in the Philippines, has the power to prescribe the applicable financial framework to be used by those corporations. It adopts accounting pronouncements issued by the FRSC as part of its rules and regulations as soon as the accounting pronouncements are approved by the BOA and the PRC and published in the Official Gazette.

The Auditing and Assurance Standards Council

The Auditing and Assurance Standards Council (AASC) is the body authorized to establish and promulgate generally accepted auditing standards (GAAS) in the Philippines. At present, AASC pronouncements are mainly adopted from the standards and practice statements issued by the International Auditing and Assurance Standards Board (IAASB). Country-specific standards and practice statements are developed to address specific auditing issues not covered by the IAASB pronouncements. The main objective of the AASC in adopting IAASB standards and practice statements is to attain uniformity of the local GAAS with the IAASB pronouncements. This harmonization is expected to enhance the reliability and acceptability of audited financial statements of Philippine companies. The AASC replaced the Auditing Standards and Practices Council (ASPC) when it was created in December 2005.

ISA have been fully adopted in the Philippines. In general terms all ISA have been adopted by the Auditing and Assurance Standards Council (AASC).

The Philippine Institute of Certified Public Accountants

The Philippine Institute of Certified Public Accountants (PICPA) was founded in November 1929 and is recognized by the Professional Regulation Commission (PRC) as the Accredited Professional Organization (APO) for CPAs in the country.

The Government Association of Certified Public Accountants

The Government Association of Certified Public Accountants (GACPA) represents accounting professionals working individually in government agencies in the Philippines. It was registered with the Securities and Exchange Commission (SEC) on February 18, 1972. GACPA has about 10,000 members and 25 Chapters throughout the country.

The Association of Certified Public Accountants in Commerce and Industry

The Association of Certified Public Accountants in Commerce and Industry (ACPACI), established in 1973, represents members working in commerce and industry in the Philippines.

The National Association of Certified Public Accountants in Education

The National Association of Certified Public Accountants in Education (nACPAE) was established in 1072 to create a group that would serve the needs of teachers of accounting, promote their cause, advance their purpose and advocate a better quality of life for them and a better quality of accounting education for aspiring CPAs.

The Confederation of Asian and Pacific Accountants

The Confederation of Asian and Pacific Accountants (CAPA) is an IFAC Regional Organization[10] (RO) established in 1927. Bringing together thirty-two national Professional Accountancy Organizations (PAOs) operating in twenty-three jurisdictions in Asia and the Pacific CAPA's members, which include PICPA, represent over 1.6 million accountants across the region. CAPA provides the structure to enable relationship building and knowledge sharing among PAOs operating in the region and to undertake specific activities consistent with the organization's vision and mission. That mission is supported by medium to long-term strategies and short-term work plans. These embrace both the public and private sectors and all facets of the accountancy profession.

The ASEAN Federation of Accountants

The ASEAN[11] Federation of Accountants (AFA) was established in March, 1977, to serve as the umbrella organization for the national association of the Association of South East Asian Nations (ASEAN). AFA's principal objective is to build the capabilities of its member bodies, to enable them to better provide services that will benefit their members particularly in the area of continuing professional development, thereby making them globally and regionally competitive. From its base of five founding member bodies, the national accountancy bodies of Indonesia, Malaysia, Philippines (PICPA), Singapore and Thailand, AFA membership now comprises all ten ASEAN member countries, along with a number of Associate member bodies.

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[10] ROs are independent bodies which share IFAC's mission and values and which, in many cases, share IFAC's membership. ROs play a valuable role by supporting the development of the international accountancy profession, facilitating convergence to international standards, and providing leadership in addressing issues affecting the accountancy profession in their region and/or constituencies.

[11] The Association of Southeast Asian Nations is a regional intergovernmental organisation comprising ten Southeast Asian countries which promotes Pan-Asianism and intergovernmental cooperation and facilitates economic, political, security, military, educational and socio-cultural integration amongst its members and other Asian countries, as well as globally. The Philippines was a founding member of ASEAN.

Global Professional Accountancy Organizations active in the region

The global accountancy profession is well represented in the Philippines, where there are members of the Association of Chartered Certified Accountants (ACCA), the American Institute of Certified Public Accountants (AICPA), Certified Practising Accountants Australia (CPA Australia), Chartered Accountants Australia and New Zealand (CAANZ), the Institute of Public Accountants (IPA), Chartered Professional Accountants of Canada (CPA Canada), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Association of Accounting Technicians (AAT) and the Institute of Chartered Accountants in England and Wales) ICAEW.

Implications for the introduction of public sector accounting standards

The accounting and auditing environment in the Philippines is relatively sophisticated, with well-established organizations and institutions forming the regulatory framework. This in principle offers a powerful mechanism to support the introduction of public sector accounting standards.

Guidance for other countries considering the adoption and implementation of IPSAS

The adoption and implementation of IPSAS in a country will be of interest to the actors in the accounting and auditing environment. The nature of this interest will vary both with the role and remit of the actors themselves and to the extent that the government team responsible for planning and implementation is accustomed to working closely with those other actors. Where there has previously been little need for integration with the profession more widely then it will be necessary to establish, develop and maintain relationships initially and over time. Where the non-government actors provide services mainly to the private sector it will almost certainly be necessary to work with them to explain the role of government, how it operates in the country and what this means for the way in which accounting and financial reporting is done. Whilst the way in which government accounts for its activities will have some, perhaps many, similarities with how this is done in the private sector, there are a number of government-specific areas of activity that are not carried out in the private sector. Although accounting for these activities, for example the provision of social benefits, will be underpinned by the same fundamental concepts as are used in the private sector, the differences are not trivial. They will therefore require explanation at least if the wider profession is to be fully engaged in the implementation of IPSAS.

The effort to implement IPSAS should not be underestimated. Where the government resources to do this are scarce, the wider profession may be prepared to support efforts. This may be particularly the case where this is seen as being an opportunity to know government better, and to get closer in an operational capacity.

The wider profession in the country is likely to have been involved in supporting the implementation of accounting standards in the private sector. This experience represents a valuable resource on which to draw, particularly in relation to identifying and resolving the practical issues that are likely to arise during implementation.

The Budget process

The budget process followed by the GoP would be familiar to many students of government budgeting in countries around the world. It progresses through four phases: Preparation, Legislation, Execution and Review, which overlap as the Preparation phase begins in January of the preceding fiscal year.

A visual representation of the Budget Cycle is attached below[12].

Significant features include:

- Involvement of citizens and civil society at an early stage in the process;
- The inclusion of a Budget Priorities Framework giving guidance on the Executive's intentions with regard to key programmers and projects;
- An extended period for deliberation by the Congress, covering a period of four months during which the House and then the Senate consider the President's Budget Bill followed by a further two month period in which bicameral deliberations take place;
- Anticipation of the progress of the Budget Bill to allow essential early procurement activities to take place;
- The establishment of Performance Targets for major programmes and projects;
- Involvement of citizens and civil society in the implementation of the Budget;
- Submission of budget documents through an online system;
- Periodic monitoring reports throughout the implementation period, and an Audit Report on the execution of the Budget prepared and submitted during the following financial year. In addition to certifying the legality and propriety of government spending the audit report expresses a view on the value for money aspects of government expenditure. The report, which is produced by COA, also includes a Whole of Government Annual Financial Report in addition to those for each Agency; and
- Use of the audit report by DBM in confirming Agency performance; determining budget levels for future cycles; and addressing wider issues in usage of funds by Agencies.

Responsibility for securing the involvement of citizens and civil society organizations lies with each Agency, through Budget Partnership Agreements. These are a mechanism for securing the formal engagement of CSOs in budget preparation and execution at the agency level. Their aim is to help improve the quality of budgetary allocation by identifying inefficient and ineffective programs, refining the geographical distribution of public investments, and improving the delivery of services. BPAs emphasize the need for a rigorous and collaborative analysis of an agency's programs and projects.

As is the case with the budgets produced by almost every government in the world, the space for introducing new initiatives is usually limited, and the resources likely to be available to Agencies to carry out their plans depend on assumptions made regarding key economic and fiscal variables. To make this explicit GoP produces a Budget Priority Framework (BPF) at an early stage in the process, making clear the economic forecasts and fiscal targets underpinning the budget; the anticipated total cost of continuing existing commitments into the new budget period; and the space available for new initiatives or for expanding

[12] Source https://www.dbm.gov.ph/wp-content/uploads/Executive%20Summary/2016/Budget%20Cycle.pdf

existing ones. The BPF also identifies priority sectors and locations, and other requirements that Agencies must comply with in formulating their budget submission.

At time of writing the House of Representatives had approved a Budget Reform Bill that, whilst leaving the existing budget process essentially unchanged, mandates the production of a Budget on a cash basis. It is expected that the Senate will approve this Bill, and Budgets for FY 2019 have been prepared on the assumption that this will be the case. The implications of this change in Budget law for accountability and governance are discussed later in this case study.

The Open Budget Survey 2017

The International Budget Partnership (IBP), formed in 1997, works with a wide and diverse group of independent organizations to promote transparent and inclusive government budget processes. As part of its *Open Budget Initiative* since 2006 it has published an annual survey of government budget systems. Organized into three groups of indicators (Transparency, Public Participation and Budget Oversight) the *Open Budget Survey* offers a unique insight into government budgeting in countries around the world.

In the latest survey, for 2017, among 102 countries that were surveyed, the Philippines were rated as follows (scores are out of a possible 100):

- **Transparency**: Rating 67 ("Substantial"), compared with the global average of 42, showing significant improvement since the index was established in 2006;
- **Public Participation**: Rating 41 ("Limited"), against a global average of 12; and
- **Budget Oversight**: this is classified into the parts played by the legislature in formulation/approval, and oversight of the Budget; and the extent to which the Supreme Audit Institution provides oversight of the Budget. On formulation/approval the Legislature scored 62 ("Adequate") and on execution it scored 46 ("Limited"). COA (the Supreme Audit Institution) scored 83 ("Adequate") on budget oversight.

The Philippines has shown steady if somewhat uneven progress in improving its *transparency* rating over the period in which these results have been produced. During the first half of this period results were broadly stable: however there has been significant improvement since 2012, warranting the conclusion that "[t]he Philippines provides the public with substantial budget information".

Transparency has not only improved substantially over time, it ranks high when compared both with the global average and with other countries in the south-east Asia region. The global difference is described as "substantially higher". Comparatively only Indonesia and, to an extent, Thailand come close to achieving the Philippines score.

The area in which there is greatest room for improvement is in public participation. Scoring 41/100 reflects the "limited opportunities" that are provided to the public to participate in the budget process. However, the current position does reflect gradual improvement over time, and in the current assessment only one budget document, the mid-year review, is shown as requiring attention in terms of its availability to the public.

The IBP made a number of recommendations in relation to how budgeting may be improved in the Philippines. These included:

- Publishing a timely mid-year review of the Budget.
- Making more and better information available, including in the Tear-End Report.
- Increase engagement with civil society.

- Hold legislative hearings on the budget, involving testimony by the public and civil society organizations.
- Ensuring that audit processes are reviewed by an independent agency.

The main findings from the 2017 Open Budget Survey for the Philippines are available here.

PREPARATION

1. **Budget Call** — *Jan of Prior FY Fiscal Year)*
2. **Citizen Engagement** — *Before Tier 1 & 2 Proposals*
3. **RDC Consultations** — *Before Tier 1 & 2 Proposals*
4. **Program Convergence** — *Before Tier 1 & 2 Proposals*
5. **Agency Tier 1 Proposals (Ongoing Expenditures)** — *February of Prior FY*
6. **Tier 1 Deliberations** — *March of Prior FY*
7. **Budget Priorities Framework** — *April of Prior FY*
8. **Agency Tier 2 Proposals (New/ Expanded Spending)** — *May of Prior FY*
9. **Tier 2 Deliberations** — *June-July of Prior FY*
10. **Presentation to President & Cabinet** — *July of Prior FY*
11. **Confirmation & Finalization** — *July of Prior FY*
12. **The President's Budget** — *July-August of Prior FY*

LEGISLATION

1. **House Deliberations** — *August-October of Prior FY*
2. **Senate Deliberations** — *September-November of Prior FY*
3. **Bicameral Deliberations** — *November-December of Prior FY*
4. **Ratification & Enrollment** — *December of Prior FY*
5. **Enactment of the GAA** — *December of Prior FY*

EXECUTION

1. **Early Procurement Activities** — *October-December of Prior FY*
2. **Budget Program** — *October-December of Prior FY*
3. **Allotment Release** — *January (Comprehensive) and Throughout FY*
4. **Obligation** — *Throughout FY*
5. **Cash Allocation** — *January (Comprehensive) and Throughout FY*
6. **Disbursement** — *Throughout FY*

ACCOUNTABILITY

1. **Performance Targets** — *October-December of Prior FY*
2. **Citizen Engagement** — *Throughout FY*
3. **Monitoring & Evaluation** — *Throughout FY*
4. **Agencies' Accountability reports** — *Monthly & Quarterly*
5. **Performance Review** — *Throughout FY*
6. **In-Year Reports** — *Monthly & Quarterly*
7. **DBCC Mid-Year Report** — *September of FY*
8. **DBCC Year-End Report** — *Within Next FY*
9. **Audit Report** — *Within Next FY*

THE BUDGET CYCLE

The budget and management reforms implemented since 2010 have strengthened the manner by which the government prepares, authorizes, implements, and accounts for the use of the National Budget.

The four phases of the Budget Cycle overlap in continuing cycles. While the Executive implements the Budget for the current year, it also prepares the Budget for the next fiscal year or defends it before Congress. At the same time, the government monitors, evaluates, and reports on actual performance year-round.

Historical roots

Prior to adoption of IPSAS the accounting standards regime in the Philippines dated from 1986, and had been amended since then on a number of occasions. In 2001 the *New Government Accounting System* (NGAS) was adopted: this was followed in 2006 by the adoption of *Philippine Government Accounting Standards*, (PGAS) based on national practice and covering both the public and the private sectors. Although IPSAS had been in existence since 1997 the PGAS in relation to the public sector were prepared without reference to IPSAS.

The case for adoption of IPSAS

By 2008 there was a widely held view that PGAS needed to be updated and harmonized with current international standards, including, in relation to the public sector, IPSAS. IPSAS were seen by COA as representing quality and therefore with a role to play in “enhancing the quality and uniformity in financial reporting by Philippine public sector entities, and ensuring accountability, transparency and comparability of financial information with other public sector entities around the world”. This led to the creation of the *Public Sector Accounting Standards Board* (PSAcSB) in October of that year. The Board’s remit included assisting COA in formulating and implementing public sector accounting standards, and establishing and maintaining linkages with international bodies, professional organizations and academia on accounting and related aspects of financial management. After due consideration it was decided that the adapted version of IPSAS, to be styled *Philippines Public Sector Accounting Standards (PPSAS)*, should apply to National Government Agencies (NGAs), Local Government Units (LGUs) and Government-Owned and/or Controlled Corporations (GOCCs) not classified as Government Business Units (GBEs).

Adoption of the first tranche of standards

The work to prepare, review, finalize and approve what would become the first 25 Philippines Public Sector Accounting Standards (PPSAS) and the corresponding Philippines Application Guidance (PAG) was substantively completed by the end of 2013, and COA formally adopted this first tranche of standards in January 2014. The 25 PPSAS were based mainly on the then extant 32 IPSAS contained in the 2012 edition of the ***Handbook on International Public Sector Accounting Standards Pronouncements*** (HIPSAP) published by IFAC.

One particularly relevant point that ought to be made relates to the basis on which PPSAS were developed by COA. This comprised:

- IPSAS as issued by IPSASB;
- Other pronouncements by the IASB, PICPA, INTOSAI and other relevant bodies;
- Other relevant factors, including best accounting practices; and
- The capacity of government agencies to comply with PPSAS.

This illustrates how a decision to adopt IPSAS needs to be taken in full consideration of the wide range of issues that this entails, including the extent to which there is capacity locally to implement the standards. This issue of capacity refers to the rate at which IPSAS are implemented, rather than implying any ability to modify IPSAS in light of available capacity.

The 25 PPSAS were adopted by all government entities[13] except government business enterprises, for whom IFRS were deemed more appropriate. Of the 32 IPSAS in the 2012 edition of the HIPSAP seven[14] were excluded from adoption and implementation of three[15] was deferred. Specifically:

- IPSAS 7 was superseded by IPSAS 36;
- IPSAS 10 (Financial Reporting in Hyperinflationary Economies) was not applicable;
- IPSAS 11 (Construction Contracts) was not applicable;
- IPSAS 15 (Financial Instruments Disclosure and Presentation) was superseded by IPSAS 28 and IPSAS 30;
- IPSAS 18 (Segment Reporting) and IPSAS 22 (Disclosure of Financial Information about the General Government Sector) were to be evaluated for possible adoption with effect from 1 January 2020 in connection with the development and implementation of Whole of Government Accounts; and
- IPSAS 25 (Employee Benefits) was superseded by IPSAS 39.

The process of developing PPSAS was based on:

- A study to evaluate each IPSAS and determine its application to GoP;
- Initial development of each standard, along with any necessary PAG documentation;
- Production of Exposure Drafts of candidate standards, for comment by relevant stakeholders;
- Resolution of issues arising;
- Holding of focus group discussions to explain the detailed intention of each standard and to gather feedback on the implementation and applicability;
- Formal adoption by COA of the standard;
- Preparation and updating of the GAM; and
- Revision of the Chart of Accounts to reflect the requirements of each standard.

Where parts of an IPSAS were not incorporated into the corresponding PPSAS[16] explanations for this were contained in the PAG. This might include, for example, areas where existing statutory or quasi-statutory provisions prevented adoption. In some cases existing legal provision prevented the reporting of specific transactions or events on the accruals basis.

Responsibility for the preparation and ultimate approval of the initial 25 PPSAS lay with COA, who coordinated the effort with government agencies, the Philippine Institute of Certified Public Accountants (PICPA), the Government Association of Certified Public Accountants (GACPA) and other professional organizations as appropriate.

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13 Therefore by National Government Agencies, Local Government Units and Government Owned or Controlled Corporations not classified as Government Business Entities.

14 IPSAS 7, 10, 11, 15, 18, 22 and 25.

15 IPSAS 18, 22 and 25.

16 As far as possible the numbering scheme of IPSAS was reflected in the number of PPSAS, for clarity and consistency of referencing.

A pause in the rate of progress

Early in 2015 it became clear that it would be necessary to defer the introduction of PPSAS by LGUs. There remained several issues and concerns relating to how the standards should be applied, and training had not been completed. Accordingly, in March 2015, COA decided to retrospectively defer the adoption of PPSAS by LGUs until an effective date of January 2015.

Later that year it became clear that those Government Corporations classed as Non-Government Business Entities[17] would not achieve their original implementation target. By December 2015 a number of key processes remained unfinished: the approved Chart of Accounts and associated conversion guidance was a work in progress; and training of relevant personnel had not taken place. COA therefore decided to defer adoption of the new standards by these entities until January 2016[18].

Establishment of capacity building structures

The adoption of PPSAS also marked the beginning of what has become a near-continuous process of training and capacity building that continues to the present day. This program now forms part of COA's standard training program, through the Professional Development Office, the Professional and Institutional Development Sector of COA and the COA Regional Training Units.

Improvements in operations

By July 2015 COA had developed and implemented a web-based Annual Financial Reporting System (AFRS) and Budget and Financial Accountability Reporting System (BFARS), intended to facilitate the online submission of financial statements and reports by NGAs to the COA. Agencies first used the AFRS in submitting their FSs for 2014 online to COA's Government Accountancy Sector (GAS-COA).

The journey continues

In January 2016 COA began to prepare guidance for the adoption of six new PPSAS[19] and replacing the initial 25 PPSAS with the 38 IPSAS included in the 2016 edition of HIPSAP. These new standards were designed for adoption by all government agencies, once again with the exception of GBEs. The new standards were approved by COA in October 2016. This also led to work designed to update the RCAs and GAMs for use by the relevant government agencies.

At time of writing this case study COA had begun a study into the adoption of IPSAS 18, 22, 39 and 40. This work is scheduled for completion by 2020, and is being carried out in conjunction with PICPA, GACPA and other professional organizations. This, along with the previous work done, is intended to lay the foundations for the implementation of a Whole-of-Government Accounts (WGA) system based on the consolidation of financial statements for the three relevant sectors of government, NGAs, LGUs and GOCCs not classified as GBEs.

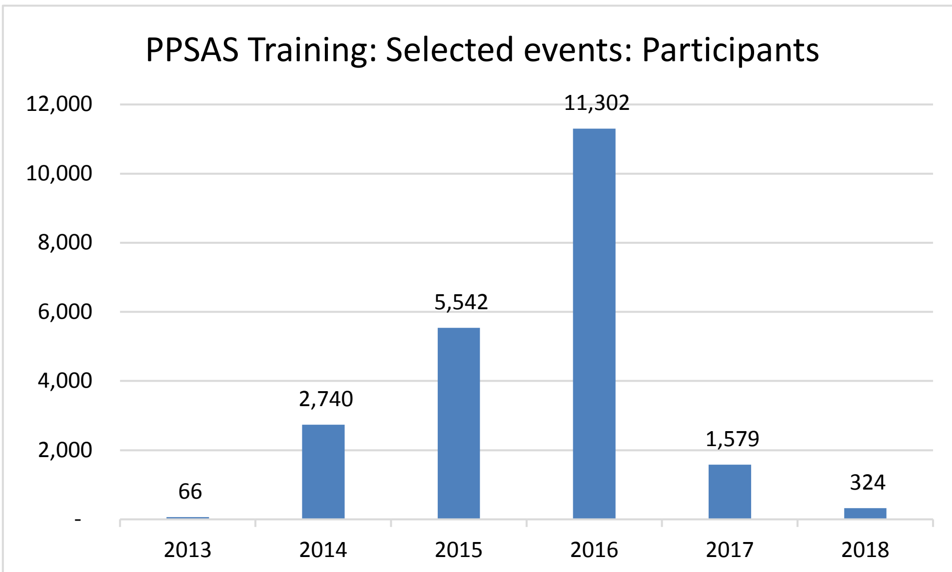
[17] For clarity, this refers to government corporations that were not Business Entities, to whom the Philippine version of IFRS applied.

[18] GBEs were encouraged, by way of contrast, to voluntarily adopt Philippine Financial Reporting Standards, PFRS, if they so wished.

[19] PPSAS 33, 34, 35, 36, 37 and 38, based on IPSAS 33-38.

Training and capacity building

The implementation of PPSAS, and the associated changes required to the Chart of Accounts, Accounting Manuals and related documentation and systems created a need for extensive and significant training of public finance staff, including COA auditors, in all levels of government in the Philippines. Although detailed records of every event that took place are not readily available, it is clear that more than 21,000[20] staff have attended one or more training courses since 2013. At the peak of the training, in 2016, the equivalent of 50 people were being trained every working day. The following chart gives some sense of the scale of what was involved as PPSAS were adopted and implemented:



Accessible records do not allow for the easy calculation of the number of training events that took place during this time period. However, if one considered a “standard” training course as one attended by, say, 25 people, then there would have been almost 900 of these between 2013 and 2018 to date. In the year of peak activity, 2016, there would have been more than 450 such courses run, almost two every working day.

The training required covered a wide range of needs:

- Training of Trainers, largely COA staff, who would be involved in the development and execution of the training programs and courses;
- Development of courseware to support the training events;
- Design and development of a Web-based Training Management System. The Conceptual Framework and Design of this system was completed in 2017, illustrating the continuing nature of the training need that arises from initiatives such as this;
- Technical training in the content and application of the Standards, and how they were to be interpreted in the Philippines context;
- Entity-specific training for NGAs, LGUs and GCs classed as non-GBEs;
- High level training for senior staff, including Executive Appreciation courses;

[20] This is a lower bound on the actual numbers trained, given that comprehensive records of all training events are not easily accessible.

- Updating of training materials and provision of refresher training as adopted Standards were modified in light of experience and changes in IPSAS;
- Training in changes brought about by the Revised Chart of Accounts and the new Government Accounting Manual;
- Printing and distribution of hard copies of documentation, for ease of access and reference by Agency and COA personnel; and
- Processing of feedback received from participants in training courses, and subsequent modification of courses and courseware.

This activity, which placed considerable demands on COA staff in particular, took place alongside the work to develop the Standards themselves and related activity, including:

- The development, pilot testing and implementation of a Web-based Annual Financial Reporting System (AFRS) and Budget & Financial Accountability Reporting System (BFARS) to facilitate the online submission of financial statements and other financial reports to COA;
- Development of e-learning modules in relation to the AFRS and BFARS;
- Supply of technical assistance to accountants in agencies in relation to uploading financial statements through the online AFRS;
- Extending the electronic New Government Accounting System (eNGAS) and eBudget system and making it available for use by NGAs and LGUs;
- Developing, testing and implementing an *e*Ticket system for monitoring technical issues related to the implementation of the *e*NGAS and *e*Budget systems;
- Preparation of a Project Proposal, Work Plan and Budget Estimate for a *Whole of Government Accounting and Financial Reporting System* (WGAFRS), to begin development in July 2017 and due for completion by December 2019;
- Design of a Web-based *Keeping the General Accounts of the National Government System* (KGAS;.
- Extending the *e*NGAS and *e*Budget systems to LGUs; and
- Supporting other key government initiatives, including the *Budget and Treasury Management System* (BTMS).

One of the clearest lessons to emerge from the experience of COA in adopting and implementing PPSAS is that the work to produce the Standards themselves almost pales into insignificance when compared with the training required, and the consequences for government accounting, auditing and other systems. This predominantly accounting work also took place alongside other large scale programs, including the adoption and implementation of 43 *Philippine Public Sector Standards of Audit* (PPSSAs), starting in 2013 and continuing to date. When this is set alongside the implications of the IPSASB's future Work Plan, as is outlined later in this document, it is clear that the process of maintaining and developing PPSAS and their associated systems will be a long term and demanding one for government in the Philippines.

Summary and conclusions

Key messages emerging

Timescale for adoption and implementation. It ought to be clear from this recounting of the adoption and implementation of IPSAS by government in the Philippines that the time required to carry out this work is considerable, and ought not to be underestimated. Whether this was anticipated by COA at the time of the decision to adopt IPSAS as the basis for PPSAS is not clear. However, governments in other countries who are thinking about effecting a similar change ought to be prepared to commit resources for at least a period of time similar to that taken in the Philippines.

A never ending story. As is covered in more detail later in this study, the adoption and implementation of IPSAS should be regarded as a commitment that is effectively without end. Existing standards, once adopted, will almost certainly be changed in the future. The PFM environment will change. New standards will be developed by IPSASB. Governments deciding to make the transition to an IPSAS-based regime should therefore be prepared to commit for the long term.

Flexibility is essential. Given the complex nature of the move to a standards-based regime governments ought to beware of assuming that traditional forms of project planning will be appropriate. This is particularly the case where the plan assumes that deviations from original intentions are undesirable, and seek to correct these. As COA found out, it will almost certainly be necessary from time to time to defer implementation, as circumstances change and as original intentions become over-ambitious. Flexibility in planning will be key to helping to ensure a successful implementation.

Training, training, training. The scale of the training effort involved should not be underestimated. Whilst this will depend on the number of staff involved, and therefore on the size of the government sector in any particular country, it is not something that can be treated lightly. And in those countries where the numbers working in PFM in government are much smaller than is the case in the Philippines, it is almost certain that the resources available to carry out the training will be much less. And as with the commitment to implementation of future standards and changes to existing ones, the commitment to training must also be without limitation.

Integration with existing systems. Adoption and implementation of accounting standards brings with it an obligation to make changes to accounting and related systems. The potential scale of this ought to be apparent from the work done by COA, although inevitably it is not possible to differentiate this from work that would have been necessary under the government's wider PFM reform program in any event. However, since most governments considering the adoption and implementation of IPSAS will also have in place, or at the very least be considering, a wider PFM reform program, then the need for careful integration of the work to be done under both work streams ought to be apparent.

Using available resources. The accounting environment in the Philippines was relatively well-developed when the decision was taken to adopt IPSAS. This meant that there were existing resources that could be drawn upon to supplement the efforts by government. There was also the possibility of considering the experiences of the private sector, in implementing IFRS, and drawing upon the lessons learned from that experience. Governments elsewhere considering adopting IPSAS would therefore be well advised to determine the extent to which it will be possible to draw on these wider experiences.

Accounting doesn't happen in a vacuum. For many governments around the world the budget is at least as important as the accounting system, and in a number of cases it is regarded as the primary means of ensuring financial control. As the report *Accrual Practices and Reform Experiences in OECD Countries* published in 2017 by the Organisation for Economic Cooperation and Development and IFAC ("the OECD/IFAC report") acknowledges, there remains much to be done to achieve full integration of the budgeting and accounting systems in most countries. Where different bases are adopted for recording transactions in these two key systems this raises the possibility of requiring a reconciliation mechanism between the two. That means additional resources and effort in order to effect the reconciliation. There are also conceptual and technical differences between budgeting and accounting, as the OECD/IFAC report acknowledges:

> *Budgeting is indeed an area where, contrary to accounting, standards or generally accepted principles have not yet been developed, and practices are related to the ways the Parliament authorises and controls public spending, and the nature of the national fiscal targets and rules. Categorising budget frameworks between cash and accrual, therefore, proves difficult - these are accounting concepts that may not fully reflect the specificities of budget practices.*

The role of the budget in comparison with the financial statements is also well illustrated in the following quotation from the OECD/IFAC report:

> *A number of countries, including early adopters of accrual accounting and/or budgeting, note that policy-makers and the general public have limited interest in accrual financial information. One obvious explanation for this situation is that, in many countries, the cash budget balance and net lending remain the key fiscal figures or targets and, consequently, the focus of most of the political debate.*

Transitioning to Whole of Government Accounts. As has been indicated earlier in this case study COA has begun the work to produce financial statements covering the whole of government, on an integrated basis, and expects to be able to do this by 2020. As the OECD/IFAC report has shown there is little overall consistency amongst OECD members with regard to reporting whole of government financial information. Only five of the 28 OECD countries surveyed produced comprehensive whole of government accounts. For many the scope for consolidation is limited by law; around 25% use the concept of "control" as the basis for consolidation, this excluding entities who are constitutionally or legally independent; and for a number of respondents alternative sources of information, such as Government Finance Statistics, were seen to be providing the comprehensive overview addressed by whole of government accounts. With such a broad range of views and experiences, and given the relatively small number of countries worldwide producing "true" WGA, the pool of international experience and expertise on which COA might draw in their future efforts will necessarily be small.

Benefits deriving from the work. It is probably too soon to expect to see clear evidence of the benefits for government of adoption and implementation of PPSAS. This is particularly true given that the budget is still seen as the primary mechanism for achieving control of public spending. However, given the extensive effort devoted to the initiative it is likely that clear evidence of the beneficial effect on decision making by government in particular will be expected to emerge in the next few years.

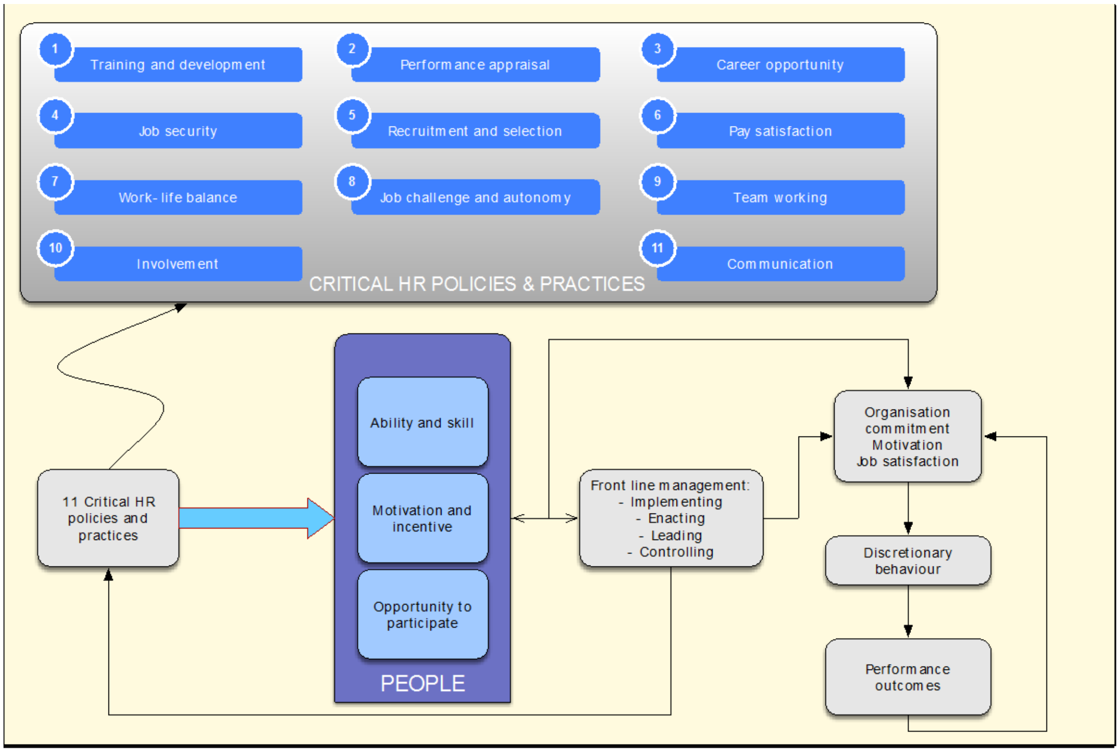
Involving media, citizens and CSOs. Despite the best efforts of IPSASB, standards-based financial statements are difficult for the lay person to understand. Government in the Philippines has a strong track record of seeking to involve citizens and civil society organizations in understanding its work and its financial effects. Implementing PPSAS ought to encourage COA to consider extending these initiatives, perhaps by following the advice given by the OECD, that "[c]ountries could usefully consider supplementing the financial statements with a "citizens' guide" or similar explanatory materials to help explain the salient features of financial statements". The effort to produce this, when placed alongside the wider work to maintain and develop PPSAS, ought not to be underestimated. However, COA is not starting from scratch in relation to this, and it ought to be possible to build on the work done under, e.g., the participatory audit program.

Transitioning to routine operations. An initiative of the scale exemplified by the implementation of PPSAS inevitably involves putting in place temporary work practices, systems and policies, collectively referred to as “scaffolding” that, in time, ought to be dismantled. The nature of government, however, tends to be such that, once put in place, policies, practices and systems become established. Removing scaffolding, and ensuring that permanent arrangements replace them, represents another challenge for government in implementation of IPSAS that might not be well understood.

Transferability of experience. The PFM environment in the Philippines is unique. At the same time there will doubtless be aspects of it that are familiar to government in other countries. This might lead to an observation that those lessons that can be learned from the Philippines’ experience are directly transferable to other environments. However, that would be a potentially dangerous assumption to make. “Environments” are not static structures. They emerge from conditions that have almost certainly existed over long periods of time and that are peculiar to a specific time and place. This does not mean that there is nothing to learn from the Philippines’ experience. However, the learning that will transfer can only be at a relatively conceptual level. For example governments elsewhere would be well advised to accept that extensive training will be required to support the implementation of IPSAS in their own country. However, the nature of that training will depend very significantly on the circumstances prevailing in their own environment, and on the historical development of that environment over time. Those factors will be unique to each country.

Actively seeking benefit. IFAC has documented very clearly the benefits that are likely to arise from the use of IPSAS to produce the financial statements of government. However, it is important for governments considering implementing an initiative of this kind to be aware that those benefits rarely arise automatically. Producing compliant financial statements should not represent an end in itself. Unless that production results in better decisions being made then implementation is, arguably, little more than a box-ticking exercise. Since the majority of financial decisions in government are taken by managers and politicians, it will be essential to ensure that this individuals have the motivation and skills to take better decisions using the new information available to them. Bringing about that state of affairs requires more than a program of training courses, and in some cases it may require cultural and attitudinal change. The scale of the challenge involved might be apparent from the results of research carried out by the Chartered Institute of Personnel and Development in the UK in 2003[21]. This identified a large number of factors that affected whether or not improved performance occurred in an organization. As the following visual summary of the findings of the research shows, training is only one of these factors.

[21] *Understanding the People and Performance Link: Unlocking the black box*, CIPD, 2003



The issues associated with achieving the benefits of implementing IPSAS should not be underestimated, as the following quotation from the OECD/IFAC report illustrates:

> *Ministries of Finance in around half of the countries considered that the expected benefits were fully achieved; around one third considered that they were partially achieved; and the remaining countries indicated that the achievements could not be assessed yet. However, none of the countries classified any of the intended benefits of the reforms as "not achieved." It is an interesting contrast that, in some countries where what may be regarded as a full accrual accounting framework has already been achieved, Ministries of Finance consider that further improvements should be made. Ministries of Finance consider enhanced accountability and increased transparency to be the main positive outcomes of the reforms. It is undeniable that accrual accounting has made more and better financial information available to the public at large. A number of countries also note that new procedures and IT systems have helped in developing the internal control environment.*

Adoption of IPSAS presents common challenges. The OECD/IFAC report tabulated the main challenges facing its member governments in implementing PFM reforms. The list should act as a useful reminder to governments considering implementing IPSAS, and is referenced here for convenience.

Table 3. OECD countries: Strategies and measures to address the reform challenges

Major Challenges	Strategies and Measures
Adapting existing laws and regulations	• Working collaboratively with the political level, and obtaining cross-party support for legislative changes. • Establishing special units to deal with the legal and regulatory issues
Design, development, and implementation of IT systems	• Strong project management • Using consultants/experts with specialist skills and technical knowledge • Developing requirements (e.g., conceptual design and functional requirements) of the system at an early stage. • Leveraging off corporate systems and practices
Identification and valuation of assets and liabilities as part of the opening balance sheet	• Consultation with, and engagement of, the appropriate departments early in the process. • Development of a model for costing capital assets where no records exist for actual historical cost. • Adopting a phased approach and allowing more time to ministries and departments • Coordinated effort by preparers and auditors.
Developing guidance and training materials and delivering training	• Establishing dedicated team(s) • Training existing staff and hiring people with subject matter skills and experience • Training existing staff • Quality assurance of training materials
Preparing consolidated financial statements	• Role of experienced and qualified staff critical • Effective coordination with entities to be consolidated • Adopting a phased approach—starting with a few eliminations
Preparing financial statements in a timely manner	• Strong project management and coordination • Role of experienced and qualified staff critical
Preparing for audit requirements and addressing audit qualifications	• Auditor relationship management and communication
Estimating, monitoring, and controlling the costs of the reforms	• Effective project management

Implementing standards may produce new tensions. Improving transparency, accountability and control can lead to its own tensions. This may explain why, for example, the vast majority of OECD countries that use the accruals basis for their budgets produce appropriations on a cash or mixed cash and accruals basis. Only two (New Zealand and the UK) appropriate revenue on a full accruals basis. The OECD/IFAC report speculates that "…countries may be wary of the volatility and discretion in accruals valuations (in particular with regard to provisions and depreciations), and believe that cash appropriations allow a better control over resources spent by ministries and departments, even when they are using accrual forecasts to measure the impact of current and new public policies".

Standards-based statements may not always contain good news. As the experience of the Philippines shows, producing standards-compliant financial statements may reveal errors and omissions in the accounting system that need to be addressed. However, this ought not to be viewed as a negative feature of the adoption of such standards. Rather it represents a step forward, in highlighting deficiencies in the accounting system that may not otherwise have been identified, and that should be addressed through a formal process of improvement and subsequent reporting and auditing.

Looking forward

Much of the workload of the GAS of COA is likely to derive from the decisions made by the IPSASB in relation to its work plan for the period 2019-2023. In considering COA's future development program, therefore, it is instructive to consider what it might mean for the work to be done by GAS in the next five years.

The Work Plan identifies 12 projects that were instigated under the previous Work Plan, that are scheduled to come to completion between the end of 2018 and the end of 2021. Whilst a number of these appear to be relatively routine, for example in the sense that they represent an updating of an existing standard, others are more fundamental. For example:

- Public Sector Measurement - Principles of Measurement will inevitably raise a number of conceptual issues that may have a significant effect on the way in which GoP reports its financial performance or position;
- Infrastructure assets, which are likely to present considerable practical issues of implementation, not least will be the identification and initial measurement of such assets in the country; and
- Heritage, which, in the Philippines as in many other countries around the world, will present difficulties of principle (defining and identifying a Heritage asset for the purposes of the standard as it will eventually be drafted) and of practice (measuring such assets and attaching values to objects that are unique, intrinsically scarce and difficult to value).

In addition to these continuing commitments by IPSASB the Board will initiate a number of new projects, to be integrated into the Work Plan on a phased basis from 2019 onwards. These include:

- Natural Resources. Accounting for natural resources is seen by IPSASB as being important. Governments generally have little knowledge of the value (or even existence) of such assets until after they have been extracted. However, the rights, e.g., to mine minerals have to be granted in advance. This can lead to difficulties in ensuring that the value of such assets is shared appropriately between those who take the risk of extraction and citizens who arguably ought to at least share in those benefits. IPSASB also intends to define the scope of this work to include other natural resources including water, natural phenomena and living species. The Philippines is rich in mineral resources although this constitutes only a small fraction of GDP at present. It is also surrounded by water and replete with living species. It is difficult to imagine that GAS will not want to be influential in setting the agenda for the development of this standard, and heavily involved in its implementation once it is approved and adopted;
- Discount rates. Discounting plays a significant part in the valuation of long-lived assets and liabilities including pension benefits. The recent prevalence of low interest rates, and even negative ones in some cases, has caused some commentators to argue that these have an impact on the statement of financial position that is not recognized properly under current rules; and
- Differential reporting. The case is being made for developing a simpler set of standards for small and medium-sized public sector entities. Although GoP has based PPSAS on IPSAS for the whole of government in the country, the opportunity to apply simpler standards to e.g. *Barangays* may prove to be irresistible.

None of this is intended to attempt to set an agenda for GAS in the period covered by the IPSASB Work Plan. However, it does illustrate the continuing nature of the commitment that has been made in adopting and implementing PPSAS. The resource implications of that have been significant in the past: it seems unlikely that this will reduce in the future.

Annex: Timeline of key events

Annex: Methodology

The material forming the basis of this case study draws on a number of sources, including World Bank and Asian Development Bank Country Reports, Public Expenditure and Financial Accountability (PEFA) Public Financial Management and Accountability Assessment reports and the Philippines Development Plan. Whilst acknowledging these sources the authors of this case study retain full responsibility for any errors or omissions that it may contain.

From the outset it was seen as important that the government of the Philippines (GOP) was fully committed to the production of the case study. Whilst the documentation referred to above was expected to form a substantial proportion of the foundation of the document, it was also anticipated that much of the “color” of what took place could only be obtained through communication with the relevant personnel in government. It was also recognized that the structure of government in the country meant consulting two principal actors: the Department of Budget and Management (DBM) and the Commission on Audit (COA). An early activity therefore was to send a Letter of Introduction to the Secretary to DBM and the Chair of COA stating the intent to produce a case study; outlining its purpose; and introducing the personnel who would be involved in the production.

In specifying the structure of this case study report IFAC & UNCTAD had identified a number of Themes that were expected to be covered by it. These were:

- Theme 1: Why make the change?
- Theme 2: How was it done?
- Theme 3: What were the critical issues experienced and key learnings?
- Theme 4: What were the implications for decision-making?
- Theme 5: What was the role of other actors?
- Theme 6: What future developments are planned?

These Themes were used as the basis of a high-level plan for collection of the necessary data, a process that included both face to face and written communication with counterparts in government. The plan was deliberately set out in a high-level form, since it was clear from the outset that flexibility in the approach to data collection would be important. The plan also allowed for the identification of work that could be done in the background, for example writing up relevant elements of the country context, whilst the more interactive components were being scheduled and carried out.

Conversations with personnel from DBM and COA were conducted using a framework of issues to explore, which was shared with the relevant personnel in advance of the meetings and other conversations that took place. Inevitably the process of scheduling and holding the meetings that were necessary was less than frictionless, and this led to some reorganization of plans on the fly as well as a need to accept a longer than anticipated timescale for the collection of the data. Those meeting also provided an important opportunity to explore issues that were not covered in any written documentation but that were to be included in the case study content.

An essential element of the approach to data collection in this case study was the need to ensure that neither DBM nor COA saw the case study as representing any form of critical analysis of what had been done. It was therefore important to ensure that the authors emphasized the intention to describe what had been done without seeking to evaluate it against any form of standard or template approach, and to reassure counterparts in government that the aim of the case study was essentially to showcase the achievements of government as a means of identifying lessons that might be learned by other countries contemplating a similar undertaking.

Throughout the period of data collection and analysis the authors undertook to keep both IFAC and UNCTAD informed of what had been achieved. This was often done informally, though email, although more formal voice calls were arranged from time to time.

As might be expected in an activity of this nature the work of government continued in the foreground, and it was clear from time to time that this, understandably, meant that COA staff in particular found it difficult to respond to requests for additional information or clarification of existing submissions. Where necessary further correspondence with the principals involved was used to expedite progress. And the physical environment in the country proved always to be a factor to take into account. Extensive flooding in the metro-Manila area in August 2018 caused widespread disruption, for example, and led to further delay in finalizing some of the key information required. It was also necessary to cope with changes in key personnel from both counterparts and client groups during the period of data collection, as the time taken to complete the case study lengthened. And the hierarchical nature of government departments also meant that data collected by individuals working on the front line had to be reviewed and signed off by superior officers.

A central tactic in ensuring that the final report contained no surprises for government was to ensure that all of the critical data was made known to DBM and COA in advance of publication. This was intended to provide an opportunity for them to comment on the draft content, and to correct any errors that had been made. This proved to be a helpful approach.

When producing material of this kind it is always necessary to take into account relevant current developments that might affect what is written. Two significant factors here were that GOP had tabled a Budget Reform Bill and were proposing to introduce a PFM Accountability Act. Whilst neither of these turned out to be an issue in the timescale of this case study, the unpredictable nature of their development meant that this had to be checked from time to time.

A formal draft of the case study document was endorsed by COA in October 2018, around eight months after the work started. This resulted in a period of several more months of finalization before completion and publication.

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529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
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