

Annex - A

METHODOLOGY OF THE ASSESSMENT

As part of the general support program in South Asia for assessment and improvement of public sector accounting and auditing against international standards, the World Bank with the cooperation of member governments is conducting the Review of Public Sector Accounting and Auditing Practices in member countries. The development of the PFM Performance Measurement Framework¹³ by the Public Expenditure and Financial Accountability (PEFA) Program¹⁴ has opened the way for a diagnostic tool to be developed, that is referenced to the accounting and auditing standards of International Federation of Accountants (IFAC), the International Organization of Supreme Audit Institutions (INTOSAI), and other relevant international benchmarks. This exercise provides substantial insight into country performance with regard to the external auditing and financial statement reporting FM indicators.

A set of 6 questionnaires are used to collect relevant information on country practices:

1. **The public sector accounting environment** -- collecting basic information about financial laws and standards-setting arrangements, educational requirements for accountants compared with IFAC International Education Standards, ethical requirements compared with the IFAC Code of Ethics for Professional Accountants.
2. **Public sector accounting practices for the general budget sector if using the cash basis of accounting** -- compared with the requirements of the Cash Basis International Public Sector Accounting Standards (IPSAS).
3. **Public sector accounting practices for the general budget sector if using the accrual basis of accounting** -- compared with the IPSAS requirements that govern accrual reporting for the public sector.
4. **Public sector auditing environment** -- compared with the provisions of the INTOSAI Code of Ethics and the INTOSAI general standards.

¹³ The PFM Performance Measurement Framework has been developed as a contribution to the collective efforts of many stakeholders to assess and develop essential PFM systems, by providing a common pool of information for measurement and monitoring of PFM performance progress, and a common platform for dialogue.

¹⁴ The PEFA Program is a partnership among the World Bank, the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the International Monetary Fund and the Strategic Partnership with Africa. A Steering Committee, comprising members of these agencies, manages the Program. A Secretariat is located in the World Bank in Washington, DC.

5. **Public sector auditing practices** -- compared with the requirements of the INTOSAI field standards and reporting standards, and the IFAC International Standards on Auditing (ISA).
6. **Accounting and auditing practices for state-owned enterprises** - compared with the requirements of the International Financial Reporting Standards (IFRS) and International Standards on Auditing that govern commercial reporting.

The responses to the diagnostic questionnaires, prepared by the relevant country authorities with the help of in-country experts retained by the World Bank, are supplemented by a due diligence review conducted by members of a World Bank task team.

Various documents are examined as part of the review, including relevant laws, codes of conduct, national accounting and auditing standards, accountant selection and promotion processes, training needs assessments, accountancy training course outlines, curricula and accreditation methods, sample accounts, sample audit reports and working paper sets.

A country report on the assessment is prepared for each country and reviewed by an expert panel of advisors before examination by the World Bank country team. The draft is then shared with the Government for response before finalization. Discussions will also be held with the relevant stakeholders to devise an implementation plan to address the way forward, with a view to minimize variances from international standards.

