

II. Accounting and Auditing in Cambodia

This chapter presents an overview of accounting and auditing arrangements in Cambodia. It provides context for the following chapters on professional infrastructure, accounting and auditing standards, accounting and auditing training, and government budgeting and accounting arrangements. The chapter comprises eight sections, in two parts, as follows:

Part One: Accounting

- 1 – Introduction
- 2 – The General Accounting Plan (*Plan Comptable General*) – describes the accounting system used in Cambodia
- 3 – Bases of Accounting – describes the bases of accounting used in Cambodia
- 4 – The Draft Accounting Law – describes the objectives and contents of the draft accounting law

Part Two: Auditing:

- 5 – Introduction
- 6 – General Inspectorate – describes the duties and responsibilities of the General Inspectorate Unit
- 7 – The Law on Audit – details the contents of the Law on Audit
- 8 – International Accounting Firms – details the international accounting firms operating in Cambodia

Part One. Accounting

1. Introduction

Since independence in 1953, Cambodia has experienced frequent political and economic instability. The establishment of Democratic Kampuchea (1975-79) by the Khmer Rouge brought massive destruction not only of political and economic systems, but also physical, human, social, business, and institutional resources of the country. This, and the subsequent international isolation of Cambodia during the 1980s, had a devastating impact on Cambodia's reconstruction and development and business systems were practically nonexistent.

The promulgation of a new Constitution in 1993 laid the foundation for the development of Cambodia's new governance system. The Constitution declared liberal democracy and a multi-party system as the

basis of the political regime of Cambodia. The Constitution defined a market economy as the foundation of Cambodia's economic system. As a result, business activity increased.

The *Plan Comptable General* (the General Accounting Plan) was issued by the MEF in 1993 and was applicable to all sectors of the economy. Although the Plan is not enforced, it is still the law for application of accounting procedures. However, there is now widespread adoption of IASs especially by the private sector and State-owned, self-accounting enterprises.

There is no company law, which outlines the reporting requirements of the private sector. However, a draft Law entitled "Corporate Accounts, their Audit and the Accounting Profession" has been drawn up, which, if approved, would require private sector companies to draw up annual financial statements, including a balance sheet, income statement and cash flow statement and notes to the financial statements "in compliance with the conceptual framework and with the accounting standards". A draft of this Law has been completed. It is expected to be presented to the National Assembly later in 2000. Until this Law is promulgated, the only "official" law on accounting systems and procedures is in the contents of the General Accounting Plan (*Plan Comptable General*).

2. The General Accounting Plan (*Plan Comptable General*)

The General Accounting Plan was issued by the MEF in 1993 and is applicable to the public sector, the private sector, and State-owned enterprises. The Plan contains a recommended Chart of Accounts, a list of the accounts to be applied, the accounting treatment for certain items, and accounting principles and guidelines for financial statement presentation. There is also a section that gives guidance for a new company in establishing its initial accounting records.

The General Accounting Plan requires that all companies, including State-owned enterprises, prepare and submit the annual financial statements including a balance sheet, income statement and notes to the accounts in the Khmer language. The following paragraphs outline the general features of this Plan.

The Balance Sheet

The Balance Sheet has a number of features that differ from IASs guidelines. The Balance Sheet classifications are similar to those of the

statement of cash flows. Appropriations are not recorded until approved by the shareholders; therefore, the Balance Sheet is presented before appropriations to reserve accounts.

Fixed Assets can also include other long-term assets, such as investments, and may include current assets e.g., short-term intercompany loans. The amortization of Intangible Assets, e.g. startup costs and development costs must not exceed five years.

Revaluations of tangible fixed assets may occur and, if the exercise is carried out, it must be carried out in respect to all tangible assets and long-term investments and the appropriate adjustments made. Any revaluation surplus is taxable. All investments should be revalued annually and adjusted downwards if the current market value is below cost.

The Income Statement

The Income Statement is divided into operational, financial and extraordinary classifications. Income and expenses are reported as to the nature of each item (e.g., wages, materials, general expenses, etc.) rather than in functional classifications (e.g., selling, distribution, operational, etc).

3. Bases of Accounting

The basic accounting doctrines and conventions applicable are historical cost, going concern, matching costs and revenue, consistency, materiality and prudence. Full accrual accounting is mostly practised in the private sector and by State-owned enterprises. However, government accounting appears to be on a cash basis.

4. The Draft Accounting Law

A draft accounting law has been drawn up for presentation to the National Assembly later in the year 2000. The law is entitled "Law on Corporate Accounts, their Audit and the Accounting Profession". When this law is promulgated, it will pave the way for Cambodia to move away from the present system and formally adopt appropriate standards.

The draft law will be applicable to any enterprise, which is required to keep their books and accounts pursuant to any law, and their accounts must be prepared and audited in accordance with the terms and conditions provided for under this draft law. Some State enterprises, especially those in service to the public industries (e.g.,

water and electricity organizations) may be subject to their own specific laws in relation to financial accounting.

The Accounting System

Under the draft accounting law, enterprises will be required to prepare annual financial statements that are in compliance with the conceptual framework and the accounting standards, the principles of which will be detailed by a decree (*Anuk Kreŭ*) of the Royal Government. The draft law is lacking in information – the comprehensive details will be included in decrees and sub-decrees when the law is passed.

The draft law also provides for the creation of a National Accounting Council which will be formed under the control of the MEF. If the draft law is passed, the Council's responsibilities will be to:

- review and give its opinion on all draft laws and regulations, including accounting provisions whatever the status of the enterprises concerned, or their sector of activity
- develop the conceptual framework and the accounting standards
- come up with proposals aimed at improving accounting, and
- represent Cambodia in international organizations and meetings dealing with accounting.

Financial Statements

The financial statements must be expressed in Cambodian Riels and must include a balance sheet, income statement, cash flow statement and explanatory notes. The financial year is the calendar year and these statements and supporting vouchers must be kept for 10 years.

The Accounting Profession

An Institute of Khmer Certified Public Accountants and Auditors will be formed under the control of the MEF.

Company Auditing

Under the draft accounting law, incorporated companies will be required to submit their accounts to an independent audit as soon as their turnover, balance sheet total and number of employees are above the limits set by decree of the MEF. The draft accounting law states that the auditor should be appointed for a period of three years and must be a member of the Institute.

Part Two. Auditing

5. Introduction

The General Inspectorate unit of the MEF has the overall responsibility for internal inspection of the Central Government, Provincial Governments, municipalities, and state agencies and institutions. The Ministry of Parliamentary Affairs and Inspection also plays a role in this area although it is unclear as to the exact nature of its responsibilities in this regard.

In the public sector the promulgation of the Law on Audit, which was passed by the National Assembly in March 2000, improved the situation immeasurably with regards to the government audit function in Cambodia. This law not only covers the Auditor-General and external audit but also includes internal control and internal audit.

In the private sector, company audits of annual financial statements are required when the turnover of a company is in excess of a certain limit. For service providing companies, the limit is KR250 million (\$66,000) and for trading companies, the limit is KR500 million (\$132,000). Companies with turnovers in excess of these limits must be audited. Private accounting firms normally undertake these audits and international accounting and auditing standards are generally applied.

6. General Inspectorate

The General Inspectorate unit of the MEF has the overall responsibility for internal inspection at the central and provincial/municipal levels of the Government.

At the central level, the General Inspectorate is required to conduct a regular inspection of the activities of entities under the control of the MEF and to prepare reports about the functioning of these entities to the Minister for Finance and Economy and propose improvement measures. The unit is also required to regularly cooperate with the National Audit Authority, when it is established, on matters related to public finance.

At the provincial / municipal level, the General Inspectorate is required to conduct inspections of the financial operations of all ministries, institutions, and provincial and municipal governments regarding the collection and recording of government revenues and expenses. The unit is also required to conduct inspections over all financial operations of public institutions, state corporations,

government joint ventures, and organizations and private companies that receive any form of benefit from the Royal Government of Cambodia (RGC).

In cases of litigation against the government, the General Inspectorate is also required to conduct investigations of claims and complaints made by citizens in connection with the financial management of the RGC.

7. The Law on Audit

The drafting of this Law and other procedures involving the establishment of an External and Internal Audit Function in Cambodia were sponsored by ADB under TA 2566 – Developing Capacity in Audit and Inspectorate Function. ADB will continue to assist in this area and have proposed a further TA – Capacity Building in Audit Function II.

This Law on Audit was enacted in March 2000 and the General Provisions provide for the establishment of a National Audit Authority that will be responsible for executing the external auditing function of the Government. This Law provides that the Auditor-General is “empowered to conduct an audit of transactions, accounts, systems, controls, operations, and programs of Government institutions, in accordance with generally accepted auditing standards and Government auditing standards.”

This Law also provides for the establishment of an internal audit function in Government ministries and public enterprises.

As at September 2000 the Auditor-General had not been appointed and the external audit activity had not been implemented.

Institutions Subject to Audit Law

The institutions that are subject to this Law include ministries, agencies, authorities of national treasury, public financial institutions and public financial joint ventures, public enterprises, public establishments, municipalities, provincial and local government offices, contractors or suppliers of goods and services to the Government under contracts, and other organizations that have received financial assistance from the Government for their equity and loans, including tax and duty exemptions and concessions granted by the Government to non-profit organisations and private investment enterprises.

Extent of Audit

External audits include the following:

- Financial statement audits
- Externally funded loans and project administration audits
- Audits of ministerial institution systems and operations
- Evaluation procurement performance audits
- Audits of nonprofit organizations, associations, political parties, and private investment enterprises
- Audits of private investment organizations, and
- Special request audits

The National Audit Authority

The National Audit Authority, formed by the passing of the Audit Law in March 2000, is established as an independent public entity which reports directly to the National Assembly, Senate and the Government for information purposes. The Auditor-General who is assisted by two Deputy Auditors-General governs the National Audit Authority. The National Audit Authority has its own budget.

Appointment of the Auditor-General and Deputy Auditors-General

The Auditor-General and the two Deputy Auditors-General are appointed by a Royal Decree at the recommendation of the Government and approved by a two-thirds majority vote of the National Assembly. The Auditor-General and his deputies have not yet been appointed (September 2000).

The appointment of the Auditor-General and the Deputy Auditors-General are for a term of five years and they may be re-appointed upon the expiration of the first term of office for another five-year term with no further re-appointments after the second term.

The candidates for appointment to Auditor-General and Deputy Auditor-General must be qualified as follows:

- Cambodian nationality at birth;
- At least 40 years of age;
- Degree of higher education or equivalent degree in accounting or economics, or finance or law, or commerce with a proper certification;
- Professional or working experience of at least 10 years; and
- No position in the governing body of any political party.

Audit Reports for the Government Sector

The Government submits the documents of settlement of the annual budget to the National Assembly and Senate for their examination and approval, and at the same time, the Government submits these statements to the National Audit Authority for auditing. The National Audit Authority must certify these statements and report to the National Assembly and the Senate. These statements must be submitted within nine months of the end of the financial year.

If at any time it appears to the Auditor-General that any serious irregularities have occurred in the accounting or custody of public moneys or public assets, the Auditor-General must immediately bring the matter to the attention of the National Assembly, the Senate and Council of Ministers, Ministry of Justice and the related ministries.

The Auditor-General may prepare reports in accordance with the provisions of any law on all matters relating to public accounts, public assets and liabilities. The Auditor-General may issue certificates and reports to the head of any authority and to the National Assembly in connection with the audit of the relevant accounts, including both compliance and performance audits. All reports of the Auditor-General are considered public documents.

The Internal Audit Function

The Law on Audit states that an Internal Audit Department will be established within each ministry and enterprise. The Internal Audit Department will report to the head of each ministry, institution and public enterprise and will submit reports to the National Audit Authority.

The Internal Auditing function has been established to examine and evaluate the efficiency of systems of internal controls established within each institution, ministry and enterprise.

8. International Accounting Firms

Three of the international big five accounting firms are represented in Cambodia: Ernst & Young International, KPMG Cambodia, and PriceWaterhouseCoopers (PWC). PriceWaterhouseCoopers and Ernst & Young International have recently agreed on a combination of business operations in Cambodia under the PWC legal entity. There are seven accounting firms in Phnom Penh.

The three major accounting firms mainly carry out the audit work of subsidiaries of foreign firms located in Cambodia, joint ventures and Cambodian economic entities and State-owned enterprises when the Government of Cambodia requests audits of these entities and enterprises. Very little audit work is done on the accounts of local firms because there is no law that requires the audit of the accounts unless certain turnover figures are reached. Local firms are not required to accurately assess profits for taxation purposes unless the turnover exceeds KR500 million (\$132,000) per annum in the case of trading companies and KR250 million (\$66,000) in the case of service companies. All major accounting firms confirmed that their clients apply IASs in their books of account.

The international accounting firms employ few qualified Cambodian accountants. Most employees are expatriates who have been recruited from the United Kingdom, the Philippines, New Zealand, Australia, and China. There are no statistics available on the number of qualified accountants and there has been no accountant needs analysis carried out in Cambodia.