

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The issues and recommendations are divided into two parts as follows.

- Part One: Where the matter referred to may be considered and, if any action is to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. The Accounting Profession

Although Cambodian law appears to require that financial reporting be done in accordance with standards contained in The Cambodia General Accounting Plan, the application of these standards is not monitored nor is there any discouragement of other methods. The private sector, especially those firms which require their books to be audited, applies international accounting standards.

Under Article 3 of the Sub-Decree on The Organization and Functioning of the Ministry of Economy and Finance, the Ministry of Economy and Finance (MEF) is required to prepare balance sheets and statements of accounts for state financial operations. These statements are not prepared and it would not be possible to prepare an accurate set of financial statements using the present systems, e.g., the current system of non-current asset recording is not operable.

It is important that Cambodia adopts accounting standards which are internationally accepted before the Government puts in place the necessary facilities to achieve meaningful financial reports and annual financial statements. There are 104 member countries of the International Federation of Accountants and all of these nations have agreed to encourage their own public and private sectors to adopt International Accounting Standards (IASs). Other ASEAN members that belong to the International Federation of Accountants include Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam.

The adoption of international accounting standards will enhance foreign investor confidence in Cambodia and it would give added impetus to the reform of the financial sector.

Cambodia needs to establish an accounting profession that delivers a high quality of service to both the public and the private sector. In the case of the private sector, this aspect is currently undertaken mainly by expatriate accountants working for international accounting firms. In order to establish a strong accounting profession in Cambodia the following steps should be taken:

- Upgrade the level of accountancy training within Cambodia to that of an international standard. The first step in achieving this is to introduce an intensive training course for the training of Cambodian accounting professors and lecturers. Initially, this would involve a selection of people who would be attached to overseas organizations, who would be ultimately responsible for the design and application of suitable courses.
- Form a professional society of accountants within Cambodia by law.
- Adopt IASs by law and make application to join the International Federation of Accountants.
- Establish an independent Accounting Standards Board.

It is recommended that:

- **A professional institute of accountants be formed in Cambodia and be given due recognition by law. If adopted, the draft law on "Corporate Accounts, their Audit and the Accounting Profession" and the associated decrees and sub-decrees would legally establish such an institute.**

2. Accounting Training

There are a number of factors that will increase the need for highly qualified accounting and auditing professionals in Cambodia.

- The emerging market economy will require investors to seek competent advice on many accounting matters in order to ensure their businesses are successful.
- The increase in the foreign investment market will prompt overseas investors to seek local expert advice on financial matters such as tax, company, and banking laws.

- The need to strengthen the Government's financial expertise, especially in the Department of Tax and General Inspectorate Department, and the establishment of the National Audit Authority will increase the opportunities for highly qualified accountants and auditors.

The present institutions involved in accountancy and auditing training cater to local requirements and the courses fall short of international standards. However, these institutions are reasonably well equipped and consideration should be given to the possibility of upgrading accountancy education in Cambodia in order that an internationally accepted level is reached.

Other means of enhancing accountancy education is by distance learning or external correspondence courses with overseas universities. Many countries provide this facility including the United Kingdom, Australia, United States, Pakistan, etc. Bilateral aid agencies also offer scholarships for this type of education and this avenue should be explored.

It is recommended that:

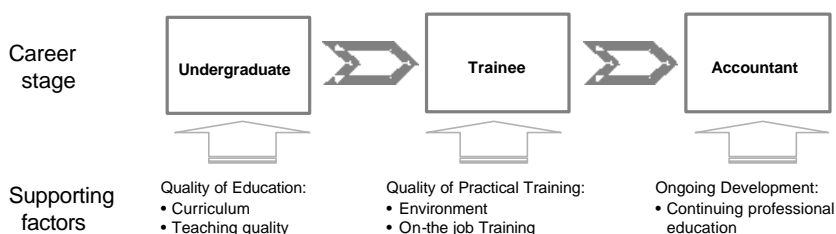
- **The accountancy and auditing training in Cambodia needs to be urgently upgraded to that of an international standard. In order to achieve this it is further recommended that:**
 - **The Royal Government of Cambodia (RGC) explore the possibility of upgrading the current accounting courses on offer in Cambodia to that of an international standard.**
 - **The RGC make inquiries as to the possibility of sponsored distance learning or correspondence courses with overseas universities on a quantitative basis.**
 - **The RGC approach bilateral aid agencies requesting accounting scholarships for Cambodian students.**
- **Technical assistance be provided in the field of post-graduate commercial training to assist the RGC in upgrading the accountancy training available in Cambodia to that of an international standard.**

3. Training for Accounting Lecturers and Professors

There is no specific advanced training program for continuing education of accounting lecturers and professors in Cambodia. In order to develop competent accounting graduates, the trainers themselves must be

thoroughly conversant with modern-day practices and trends. Figure 1 presents a simplified way of looking at the factors that support the development of competent accountants.

Figure 1: Developing Competent Accountants



The quality of undergraduate teachers is a key factor in developing competent accountants. It is noted that in Cambodia, only four accounting professors possess a degree in commerce or business studies.

It is recommended that:

- a specific training program for accounting professors and lecturers be developed and implemented. This training program should include present day best practices in accounting procedures and current information available on International Accounting Standards. Important matters such as information technology (including both hardware and software) should also be included, and
- a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

4. Security and Control of Fixed Assets

Security and control of Non-Current Assets are lacking in existing government accounting procedures. The new Asset Recording System, which is the focal point of the asset recording function, would most likely be satisfactory as regards to format and detail. However, staff need to be urgently trained on the use of the software in order to make the system operative.

Another problem occurs in that, even if the new system were in place, there appears to be no reconciliation between the amounts spent on non-current assets and the values to be recorded in the Asset Register. There is no link or communication with the National Treasury

Department on capital expenditure; the Asset Register is updated on advice received from the recipient ministry or province.

It is recommended that:

- **The software for the Asset Recording System, which is the focal point for the asset-recording function, be reviewed in order to assess its adequacy and to determine whether a more suitable package may exist in today's market.**
- **If it is decided to continue with the existing software package the staff should immediately receive proper training on the use of the software.**
- **A monthly report be prepared by the National Treasury Department on the capital expenditure incurred and that this report be used as the basis for updating the Assets Register. A reconciliation should be carried out on a monthly basis. Reports should be sent to provinces and ministries requesting the physical verification of non-current assets with details contained in the Assets Register.**

5. The Draft Capital Market Law

The draft Capital Market Law appears to be a much-needed attempt to draft an important legal framework covering two aspects:

- The law relating to companies, and
- The law relating to a stock exchange.

This draft law may be adequate for the Stock Exchange Articles, however, there are urgent legal matters, and regulations, etc., which need to be promulgated immediately relating to Company Law which are not covered. Many foreign institutions including banks have established subsidiaries in Cambodia and are operating on an unregulated activity basis. Some laws relating to parts of the Company Law have been established (Law on Banking and Financial Institutions and Law on the Commercial Rules and Registration). However, all the laws relating to companies have to be established and consolidated into one Act.

There is presently a lack of a coherent code of Company Law in Cambodia with the result that it has been considered necessary to include within the draft Capital Market Law a number of articles covering those aspects of Company Law essential to the formation and ongoing regulation of public companies.

Since the Capital Market Law has not yet been passed it is considered necessary to promote a law relating to companies in the first instance, then, at the appropriate time, promote a law relating to the stock exchange.

The current draft Capital Market Law falls short of many topics that should be covered in a law related to companies. The following is a list of the more important topics that should be considered for inclusion in any law relating to companies:

- The Corporate Authority (could become the Securities Commission after the Stock Exchange Law is promulgated)
- Incorporation of Companies
- Memorandum and Articles of Association
- Registration
- Non-profit Organizations
- Companies Limited by Guarantee
- Conversion of Private Company to Public Company and Vice Versa
- Company Prospectus
- Issues and Transfers of Shares and Debentures
- Allotment of Shares
- Types of Shares and Share Capital
- Limited and Unlimited Companies
- Shareholders Rights
- Annual General Meeting
- Register of Members
- Meetings and Proceedings
- Directors
- Financial Accounts Requirements
- Dividends
- Audit
- Arbitration
- Receivers and Managers
- Winding Up by Court
- Voluntary Winding Up
- Liquidation
- Companies Established Outside Cambodia
- Legal Proceedings

Regulations would need to be established which would include such matters as form and content of Memorandum and Articles of Association, Reports Required, form of Prospectus and Documents, Form of Annual Return, Requirements of Balance Sheet and Profit and Loss Account, and Table of Fees, etc.

It was noted that a draft Law of Commercial Enterprises does exist which was prepared by the World Bank Legal Advisory Assistance Unit. The contents of this draft, which is being administered by the Ministry of Commerce, cover many of the points mentioned above. However, it is noted that no regulations have been drafted.

It is recommended that:

- **The current draft Capital Market Law and the draft Law of Commercial Enterprises be reviewed and replaced by a comprehensive Law on Companies and, at the appropriate time, a further law be drafted regarding the establishment of a Securities and Exchange Commission and a Stock Exchange.**
- **Technical assistance be provided for a legal expert with knowledge of Companies Law and Securities and Exchange Commission and Stock Exchange Law be engaged to undertake these tasks.**

6. Public Accounts Committee

Under Cambodian laws and regulations, there appears to be no independent body, which is separate from the Government, which carries out an independent review of all public expenditures incurred by Government ministries, agencies, and enterprises.

It has been suggested that the Finance and Banking Commission (FBC) fills the role of a Public Accounts Committee in an ad hoc fashion. However, the FBC has no official role or procedural document and its constitution has yet to be drafted. A well-meaning and competent Public Accounts Committee (PAC) made up of members of the National Assembly, instills public confidence in government financial operations.

The general functions of most public accounts committees are to examine the accounts of Government and State-owned enterprises to ensure that amounts expended were appropriate and in accordance with budget and were applicable to the service for which they were charged or allocated. Some countries go much further than this and the PAC is sometimes responsible for the examination of annual financial

statements and the examination of reports of the Auditor General which are submitted to Government. In most cases members of public accounts committees are not necessarily qualified accountants and their obligations and duties should reflect this fact.

The main advantages of having a competent PAC in operation are that it is independent from the Government and its decisions, findings and recommendations are formulated without bias. The hearings are transparent and open to the public and this adds public confidence to the results of the investigations.

It is recommended that:

- **A Public Accounts Committee be established and be comprised of members from the National Assembly. This committee should be established by law and the objectives, rules and procedures should be transparent and in the interests of the public.**
- **It is further recommended that the appropriate technical assistance be granted to assist in drafting the necessary laws and regulations.**

Part Two. Where External Assistance is Not Required

7. Establish Public Sector Accounting Standards Board

The International Federation of Accountants has released the first eight International Public Sector Accounting Standards (IPSASs) designed to enhance the accountability and financial management of governments worldwide. The release of these documents means that for the first time there is an authoritative set of independent financial reporting standards for governments.

IPSASs 1-8 are the first in a set of accrual-based accounting standards applicable to the public sector and will contribute significantly to the provision by governments of comparable, relevant and understandable financial information.

The IPSASs are based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC). The IASs are adapted as necessary to reflect their application to the public sector.

IFAC also recognizes that many governments may not yet be in a position to adopt the accrual-based IPSASs. To assist these

governments, the Public Sector Committee (PSC) of IFAC has developed an exposure draft ED Financial Reporting under the Cash Basis of Accounting. This sets out the requirements for the presentation of the primary financial statement under the cash basis of accounting, as well as the statement's structure and minimum content requirements. The requirements that are likely to emerge in this standard should lead to transparency where governments remain on the cash basis of reporting.

Building on the momentum of the recently released first set of final International Public Sector Accounting Standards (IPSASs), the International Federation of Accountants (IFAC) Public Sector Committee (PSC) released a further six new exposure drafts. The exposure drafts are another key step in the PSC's efforts to develop a comprehensive set of international accounting standards for governments around the world.

In addition to the new standards and exposure draft, the PSC has released a study, *Governmental Financial Reporting: Accounting Issues and Practices*. The new study aims to assist governments in the preparation of their financial reports and contains a detailed description of the common bases of accounting used by governments: cash accounting and accrual accounting, as well as a brief discussion of common modifications to the cash and accrual bases. The study also provides examples of actual financial statements prepared under each basis of accounting.

International importance is now being actively directed towards the issue of accounting standards for the public sector and it is appropriate that Cambodia should keep pace with developments. It is also appropriate for Cambodia to consider the establishment of a Public Sector Accounting Standards Board and the application of Public Sector Accounting Standards at a time when Cambodia is currently moving forward and making important changes in its accounting and auditing policies and regulations

It is recommended that consideration be given to the setting up of a Cambodia Public Sector Accounting Standards Board in order to plan and establish the Cambodian Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards.

It is further recommended that the Public Sector Accounting Standards issued by IFAC be used as a base to develop the Cambodian Public Sector Accounting Standards.

8. Establishment of the Position of Accountant General

With the introduction of International Public Sector Accounting Standards, the MEF establishment needs to be reviewed in order that due recognition is given to developments in this area. There appears to be no senior officer within the Ministry whose duties include the monitoring and review of accounting standards. These responsibilities are best placed in a division headed by an Accountant General.

It is recommended that consideration be given to the creation of a position entitled "Accountant General." The duties of this position would ideally include the monitoring and review of International Public Sector Accounting Standards. Recommendations would come from this Officer regarding the adoption of Standards and these submissions would be made to the Public Sector Accounting Standards Board.

It is further recommended for consideration that the functions and responsibilities of Public Accounts be included in the duties of the Accountant General.

9. Transparency

There is a lack of transparency with Government reporting. There is practically no interface with the public nor the private business sector and at times it is most difficult to ascertain what financial reports are issued by the Government.

There appear to be no financial reports that disclose information on how resources have been used and accounted for, nor does there appear to be any financial instructions on these matters.

Article 90 of the Constitution states that "The National Assembly shall approve Administrative Accounts." It was not possible to view the "Administrative Accounts" nor was it possible to confirm their existence.

It is known that a document does exist which is referred to as the "Implementing Budget" and another document that may be the same document, referred to as "The Statement of Settlement of Budget." It was not possible to view an English version of these documents.

The National Budget itself is a public document and is freely available, however it was difficult to obtain information on actual Government expenditures and revenues and what reports, if any, were available as public documents.

One criterion of good governance is transparency and this is based on the extent to which information on public sector decision-making, policies, actions, and performances are made available to the public.

It is recommended that all government accounts of public expenditures and revenues be available for public information and that all statistical data, inventories of public property, government rules and procedures, procurement policies, etc., be also classified as public information.

10. Financial Performance Indicators

In many countries, State-owned enterprises, in particular those that generate their own revenue, often include financial performance indicators as Notes to the Financial Statements. These financial performance indicators include Rate of Return, Self-Financing Ratio (Contribution to Capital Ratio) and Debt Equity Ratio.

The Rate of Return measures the profitability of an organization based on the return (expressed as a percentage) it achieves on the invested capital.

The Self-Financing Ratio measures the amount of self-generated funds invested in the acquisition of capital assets.

The Debt Equity Ratio is a measurement of long-term debt expressed as a ratio of long-term debt and equity.

These financial performance indicators assume greater significance when used as a benchmark for comparisons between financial periods.

The financial performance indicators described above are often included as covenants in Project Agreements and Loan Agreements with international finance institutions.

It is recommended that consideration be given to the adoption of financial performance indicators as benchmarks for comparison purposes between financial periods in State-owned enterprises that generate their own income. If adopted, the indicators recommended are the Rate of Return, the Self-Financing Ratio and the Debt Equity Ratio; and further, that these indicators be included as Notes to the Financial Statements.

11. Budget Monitoring Process

There appears to be no transparent budget monitoring process where actual performance can be compared against planned performance on a regular basis. There needs to be a coordinated approach by line ministries and provinces and institutions with the core budget departments of MEF in order that budgeted revenues and expenditures are monitored, at least on a monthly basis, in order that planned targets may be met.

The roles of various officers in the departments concerned should be reviewed to ensure that responsible officers are undertaking these monitoring procedures. The tasks involve not only the monitoring process but also the investigation of discrepancies and the institution of remedial action where necessary.

The budget cycle appears to be timed so that final discussions are held with the Council of Ministers by early December. This leaves little time for a final review and adjustment and it is considered that the cycle should be revised in order that these discussions are held approximately two months earlier.

It is recommended that:

- **The budget monitoring process be reviewed in order that adequate procedures are put in place to better attain planned targets. This will involve the dissemination of actual costs of expenditures and revenues to line ministries, provinces, agencies and institutions on a monthly basis showing actual and budgeted figures and requiring explanations of discrepancies. Remedial action should also be advised.**
- **The functions and responsibilities of senior staff in line ministries, provinces, agencies and institutions are reviewed in order that the budget monitoring process will be effective.**
- **The budget cycle be revised in order that final discussions are held with the Council of Ministers in October each year.**

12. ADB Anti-Corruption Policy

ADB's anti-corruption policy is centered on three objectives: (i) Supporting competitive markets, and efficient, effective, accountable, and transparent public administration as part of ADB's broader work in governance and capacity building; (ii) Supporting promising anti-corruption efforts on a case-by-case basis and improving the quality of

ADB's dialogue with its developing member countries (DMCs) on a range of governance issues, including corruption; and (iii) Ensuring that ADB's projects and staff adhere to the highest ethical standards.

In order to combat corruption in the public service, it is recommended that:

- **A Public Accounts Committee needs to be established and adequately recognized in the Constitution or by legislation. The advantages of establishing an independent Public Accounts Committee and its functions have been detailed previously.**
- **Adequate accountability measures should be in place within the public service. These measures should be transparent to the individuals concerned and should be covered in position descriptions or included in finance instructions.**
- **Procedures should be in place for the detection and investigation of corruption. Strengthening internal control procedures or broadening the scope of the internal audit may achieve this.**
- **The employment and training of accountants should be enhanced within the public service. All accounting bodies have a stringent code of ethics and deviations from this code could lead to dismissal from the accounting society. The employment of people committed to these ethical codes of behavior will enhance the overall integrity of public servants. Employees should be encouraged to further their careers by taking up additional training that will lead to obtaining professional qualifications. The Government should undertake Retraining and training in government procedures.**
- **Effective internal controls with properly constructed transparent guidelines should be established and adherence to these guidelines should be monitored. This monitoring process could be achieved by inclusion in the mandate for internal audit.**