

Financial Management and Governance Issues in Cambodia

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Prepared Under Regional Technical Assistance (RETA)
5877: *Strengthening Financial Management and Governance in
Selected Developing Member Countries.*

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Foreword

This report describes financial management and governance arrangements for Cambodia, identifies deficiencies in those arrangements, and presents recommendations to address those deficiencies. For the purposes of this study, financial management and governance arrangements are narrowly defined as being accounting and auditing arrangements and practices. The report was prepared for the Asian Development Bank by Ted Godden (International Consultant) with overall guidance from Francis B. Narayan (Lead Financial Specialist, ADB) under Regional Technical Assistance (RETA) 5877 – *Strengthening Financial Management and Governance in Selected Developing Member Countries*. Savora Tia provided research assistance. The contents of the draft report were discussed and debated with representatives from the Government, the private sector, and international organizations at a workshop that was held in Phnom Penh on 6 July 2000. The issues and recommendations were further discussed at an international conference at ADB headquarters in Manila from 16-18 October 2000.

This report should be read in conjunction with the Summary Report, which identifies and examines selected issues in relation to financial management and governance.¹

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¹ Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa P. Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank.

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Currency Equivalents

(as at 4 November 2000)

Currency Unit	– Riel (KR)
KR1.00	– \$0.0002607
\$1.00	– KR3,835

Abbreviations

ADB	Asian Development Bank
ASOSAI	Asian Organization of Supreme Audit Institutions
AusAID	Australian Agency for International Development
CDC	Council for the Development of Cambodia
EFI	Economics and Finance Institute
GDP	Gross Domestic Product
IAAS	International Accounting and Auditing Standards
IAS	International Accounting Standard
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
JICA	Japan International Cooperation Agency
MEF	Ministry of Economy and Finance
NBC	National Bank of Cambodia
PAC	Public Accounts Committee
PSC	Public Sector Committee
RETA	Regional Technical Assistance
RGC	Royal Government of Cambodia
SAI	Supreme Audit Institution
SOE	State-owned Enterprise
TA	Technical Assistance
UNDP	United Nations Development Program

Notes

- (i) The financial year of all organizations, including the Government, ends on 31 December.
- (ii) In this report, \$ refers to US dollars.

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Executive Summary

Background

Cambodia is situated in the Lower Mekong region between Thailand in the west, Viet Nam in the east, and Lao PDR (People's Democratic Republic) in the north. Its level of per capita Gross Domestic Product (GDP) makes it one of Asia's poorest countries – one third of Cambodia's people live in poverty. A great deal of the country's infrastructure has been destroyed by decades of conflict.

In 1999, Cambodia benefited from favorable weather conditions and an improved political climate. Consequently, economic growth was higher in 1999 than in the previous year. Lower inflation, a lower fiscal deficit, and a slightly increased capital account deficit accompanied the improved growth. If the government can maintain the political stability and reform progress achieved in 1999, economic growth of 6-7 percent per year can be expected over the medium term.²

Developments

Since independence in 1953, Cambodia has experienced frequent political and economic instability. Before 1953, Cambodia was a French colony for almost a century.

Economically, the worst period of Cambodia's history was from 1975 to 1979 when the country, then known as Democratic Kampuchea, was under the rule of the Pol Pot regime. The market economy and business activities were completely abolished. There was no private ownership, and no money or trade. The economy was cut off from the rest of the world except the People's Republic of China. During the period from 1979 to 1989, the People's Republic of Kampuchea (Cambodia) suffered from international embargoes and enforced isolation. This stunted the country's development, which had to start from scratch. The State ran all enterprises. In 1991 the main Cambodia political factions signed the Paris Peace Accord and the United Nations organized general elections. A new Constitution was promulgated in 1993 and a slow transition to a free market economy evolved.

Responses and Challenges

Under the new Constitution, democratic principles were reintroduced and private ownership was allowed. The public sector was organized

² Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 88.

through the Legislature, the Executive and the Judiciary. Important laws were passed including the Law on Investment (1994), the Chamber of Commerce Law (1995), the Commercial Register Law (1995), the Cambodia Investment Board (1995), the Law on Taxation (1997) and the Audit Law (2000). The current accounting problems include:

- no Company Law
- no Accounting Law
- no International Accounting and Auditing Standards
- no Profession or Accounting Society
- very few qualified Cambodian accountants
- very few regulatory agencies, and
- inadequate accounting education.

Accounting and Auditing in Cambodia

The General Accounting Plan that was issued by the Ministry of Economy and Finance (MEF) in 1993 governs the accounting system in Cambodia. The Plan contains a recommended Chart of Accounts, list of accounts to be applied, accounting treatment, accounting principles and guidelines for financial statement presentation. Foreign companies have unofficially adopted International Accounting Standards (IASs) due to the requirements of their overseas parent companies and the influence of existing international accounting firms in Cambodia.

The draft “Law on Corporate Accounts, their Audit and the Accounting Profession” if passed by the National Assembly, will pave the way for the establishment of an accounting profession, including accounting standards, an Institute of Certified Public Accountants (CPAs) and a National Accounting Council.

The Audit Law was passed in March 2000 and established the Auditor-General and a department. An Auditor-General has not yet been appointed. There are only seven accounting firms in Cambodia and three of the international big five accounting firms are represented.

Professional Infrastructure

There is no officially recognized accounting society or organization in Cambodia nor is there any regulated accounting profession. Cambodia’s market is cash based and there are limited commercial and industrial sectors. The draft Accounting Law, if passed, will provide for accounting regulations and the establishment of an Institute and a profession. The Royal Government of Cambodia has initiated a

Financial Accountability Development Program, the objectives of which are as follows:

- Establish an Institute of Certified Public Accountants in Cambodia.
- Establish an independent Financial Accounting and Auditing Standards Board.
- Design appropriate accounting and auditing education and training programs.

Accounting and Auditing Standards

The only “formal” accounting system in Cambodia is the General Accounting Plan. Some differences between the Plan and IASs are identifiable as follows:

- Balance Sheet presentation
- The Income Statement is recorded using expense items rather than functional classification
- Some extraordinary items would be classified as operating items under IAS.

A working party to consider the introduction of IAS was formed in 1995 and later disbanded in the same year by the Government. French Government assistance and World Bank assistance involving the introduction of IASs is currently being used on projects in Cambodia. No consideration has been given to the application of Public Sector Accounting Standards.

Education and Training

The availability of quality accounting and auditing training in Cambodia is limited. There are four State-owned public institutions and five privately owned institutions providing fulltime education in accounting. The general curriculum in four-year degree courses includes Analytical Accounting, General Accounting, Financial Accounting, Cost Accounting, Managerial Accounting, International Accounting and Auditing.

The Economics and Finance Institute is government-owned and covers short-term courses in Public Finance Management, Accounting and Control, National Budget Procedures and External Finance.

Government Budgeting and Accounting

The Constitution includes articles that cover the preparation and approval of the National Budget and the Administrative Accounts (Public Accounts). The National Budget is the responsibility of the Department of Budget and Finance – a Financial Management Law is passed each year, which proclaims the approval of the Budget. The Annual Public Accounts are submitted to the National Assembly each year for approval. The most recent approval given was for the year 1998.

There are no standard financial performance indicators used as benchmarks for project or enterprise performance.

The Department of Public Property is responsible for Asset Management and Control. A new computerized system of asset recording was introduced in 1999; however, the system is not operating and operators need to be trained in order to activate the system.

Donor Assistance

ADB Assistance include a Technical Assistance Project (TA 5866-CAM) for Developing Capacity in Audit and Inspectorate Function. The TA led to the drafting of the recently enacted Law on Audit and other procedures involving the establishment of an External and Internal Audit Function in Cambodia. In addition to this TA, further assistance for Capacity Building in Audit Function II and for Strengthening Capacity in Public Finance Management have recently been proposed.

French Government Assistance has recently been used in the areas of:

- Public Sector Accounting
- Private Sector Accounting
- Revenue Mobilization through Taxation
- Computerization for Ministry of Economy and Finance

World Bank Assistance (IDF Grant No. TF027305) has recently been used for the following tasks:

- Draft an Accounting and Auditing Law
- Draft Reports on Accounting and Auditing Standards
- Draft a Report recommending examination, certification, and licensing of professional accountants and auditors
- Develop a 30-hour training module for informing Government officials on the new proposed IASs for Cambodia

EXECUTIVE SUMMARY

European Union assistance has been used for the installation of a new computerized system of Government Asset Recording for both line ministries and provinces.