

ASIAN DEVELOPMENT BANK

TAR:

PROPOSED
TECHNICAL ASSISTANCE CLUSTER
TO THE
KINGDOM OF CAMBODIA
FOR STRENGTHENING
PUBLIC FINANCIAL MANAGEMENT

January 2001

CURRENCY EQUIVALENTS

(as of 14 December 2000)

Currency Unit	–	Riel (KR)
KR 1.00	–	\$.00026076
\$1.00	–	KR 3835.00

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
BSEC	–	Budget Strategy and Enforcement Center
CIDA	–	Canadian International Development Agency
DFI	–	Department of Financial Inspection
EFI	–	Economic and Finance Institute, MEF
FBC	–	Finance and Banking Commission
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MEF	–	Ministry of Economy and Finance
MOH	–	Ministry of Health
MTEF	–	Medium-term Expenditure Framework
NAA	–	National Audit Authority
PAP	–	Priority Action Program
PRGF	–	Poverty Reduction and Growth Facility
TA	–	technical assistance
TCAP	–	Technical Co-operation Assistance Program

NOTES

- (i) The fiscal year (FY) of the Government corresponds to the calendar year.
- (ii) In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. The Government of Cambodia has requested assistance in strengthening public financial management, building on the recommendations of the governance study¹ funded by the Asian Development Bank (ADB). The recommendations were agreed on with the Government in March 2000. The assistance will also build on the recommendations of a public expenditure management workshop conducted in September 1999 in Phnom Penh with support from the ADB Institute. The Fact-Finding Mission fielded in June 2000 diagnosed key weaknesses in Cambodia's audit and budget management processes, and recommended specific improvements.

2. The Mission reached an understanding with the Government the long-term goals for the sector, as well as the scope, implementation arrangements, terms of reference for the consulting services, and cost estimate for the technical assistance (TA).² The mission's findings and understandings with the Government formed the basis for formulating the TA. The TA framework is provided in Appendix 1.

II. BACKGROUND

3. The formation of a coalition Government in late 1998, headed by Prime Minister Samdech Hun Sen, ushered in a new promise of peace, stability, and unity. The new administration made poverty-reducing economic development its first priority and launched a comprehensive reform program, with emphasis on strengthening fiscal revenue collection, civil service reform, demobilization of soldiers, and improved forest resource management. Progress in moving this large agenda forward was indicated by the 22 October 1999 International Monetary Fund (IMF) approval of a three-year, \$81.6 million enhanced structural adjustment facility, now called the Poverty Reduction and Growth Facility (PRGF). The PRGF stresses fiscal reform. In 1999, the growth of Cambodia's Gross Domestic Product (GDP) recovered and the inflation rate and fiscal deficit were lowered. The latter was the result of improved economic performance and the introduction of a value-added tax (VAT) in 1999, contributing to a boost in revenues from 8.9 percent of GDP in 1998 to 11.5 percent in 1999.

4. However, the remaining challenges are daunting. About 36 percent of the population (over 4 million people) are below the official poverty line. Life expectancy and literacy are among the lowest in the region, and infant and maternal mortality are among the highest. The improvement in internal security should improve the ability of the Government and aid agencies to increase service delivery and economic development in rural areas, where most poor people live. However, much more extensive and effective service delivery will be needed to reduce poverty.

5. Improving public services will require major improvements in fiscal management. Due to Cambodia's tragic recent past, there is an extreme shortage of qualified and competent public finance specialists and line managers. While the small but highly dedicated group of competent specialists has been able to bring down the fiscal deficit, they have yet to achieve transparent and accountable fiscal operations to ensure budget execution is in accordance with budget allocation. Programs to raise social well-being through improved health, education, and welfare services are among the least effective, as a result of major institutional problems in program

¹ Kato, T., J.A. Kaplan, C. Sophal, and R. Sopheap. 2000. *Cambodia: Enhancing Governance for Sustainable Development*, Working Paper No. 14. Phnom Penh: Cambodia Development Research Institute

² The TA first appeared in *ADB Business Opportunities* in July 2000.

design, resources, delivery, and evaluation. Although a reasonable legal framework is in place for budget management, governance structures at the provincial and local level tend to exacerbate the misallocation of resources, and waste and abuse of public monies.

6. The Government took an important step this year toward addressing these problems by setting up the Budget Strategy and Enforcement Center (BSEC) within the Ministry of Economy and Finance (MEF) to monitor budget implementation in the priority areas of health, education, agriculture and rural development. This effort builds on previous strengthening of the management of externally assisted projects.³ The Government plans to provide line ministries with quarterly spending plans in a more timely manner, and publish quarterly budget allocations and disbursements.

7. The Government has also made major progress toward setting up an effective audit function. With help from a previous TA,⁴ the Audit Law was passed in March 2000 establishing the National Audit Authority (NAA) as the supreme audit institution in Cambodia. The law empowers NAA to conduct financial, performance, and compliance audits of government ministries, agencies, loan projects, state enterprises, joint venture undertakings in which the government has a financial interest, nongovernment organizations, and foreign investor businesses that have received financial concessions from the Government. Other important features of this law relate to its independence by reporting directly to the national assembly, the rank equivalent to a senior minister for the auditor general position, two deputy auditor general positions with the rank of a minister, and the authority vested in the auditor general to determine the remuneration of NAA staff. The Government intends to appoint an independent national auditor general to head the newly formed NAA in the next few months.

8. Improvements in Government performance will also require improvements in terms and conditions for civil servants. Cambodian Government salaries have been seriously eroded in recent years due to revenue shortfalls, inflation, and the devaluation of the riel. To partly alleviate the problem, aid agencies are paying salary supplements to counterpart staff. For example, a recent study⁵ found that a sample of 38 counterparts received an average government salary of \$18 per month, and average supplements of \$194 from aid agencies. When the externally funded projects were completed, some counterparts found other projects, which continued the supplements. Those that did not had to find income from other sources, and thus became, in effect, part-time government employees. This roller-coaster income stream is seriously hindering the buildup of capabilities in key Government functions.

9. To address the problem, the Government is implementing the Administration Reform Program, with assistance from United Nations Development Programme, World Bank, and the European Commission. This includes consideration for setting up a priority missions group that will be managed and paid differently from the rest of the civil service. In addition, the Government has agreed, as part of the PRGF, to develop a strategy to increase overall pay levels and reduce the size of the civil service, within the context of a medium-term expenditure framework (MTEF). Making fundamental improvements in financial management and other aspects of governance will require major progress in these areas.

³ TA 3287-CAM: *Strengthening External Aid Portfolio Management*, for \$900,000, approved on 2 November, 1999.

⁴ TA 2566-CAM: *Developing Capacity in Audit and Inspectorate Function*, for \$600,000, approved on 8 May, 1996.

⁵ Godfrey, M. et al 2000. "Technical Assistance and Capacity Development in an Aid-Dependent Economy: the Experience of Cambodia," first draft. Phnom Penh: Cambodia Development Resource Institute

10. The TA cluster approach is considered the most appropriate way to help the Government improve its public financial management. This modality has been designed to address related constraints, while providing flexibility so the responsible authorities can develop detailed outputs, terms of reference, and budgets for individual components. The strengthening of public financial management within MEF, NAA, and other ministries requires careful sequencing of a number of specialist inputs from the fields of fiscal management, auditing, accounting, and capacity building to make the new systems and protocols work. The sequencing of the components must be properly synchronized as decisions in one component could materially alter the design of another. For example, the design of an MTEF needs to take into account auditing requirements. Components will also influence (and be influenced by) other policy changes external to them. For example, the priority missions group needs to be based on fiscally sound principles, and could be an important factor in establishing proper incentives for counterpart staff. The TA cluster approach will provide for the sequencing, synchronization, and flexibility to make this complex activity a success.⁶

III. THE PROPOSED TECHNICAL ASSISTANCE

A. Objective

11. The objective of the cluster TA is to support the modernization of two key components of Cambodian public financial management: fiscal management and audit. To improve budget management, capacity will be strengthened at MEF and priority ministries⁷ in budget formulation and strategic expenditure analysis, design of an MTEF, and fiscal devolution. To improve audit, the TA will strengthen the capacity of the newly established NAA, help establish a modern internal auditing function in MEF and the Ministry of Health (MOH), and strengthen the Finance and Banking Commission of the National Assembly so it can play its role in the accountability chain. Improvements in both fiscal management and audit will be sustainable because of the introduction of priority groups of key Government officials. The overall goal of the cluster TA is to improve governance, by building a state that is increasingly accountable, transparent, and predictable and allows appropriate participation by the Cambodian people.

B. Scope

12. **Fiscal Management Component.** This component will be implemented using the framework outlined for the budget management section of the IMF Technical Cooperation Assistance Program (TCAP) with an explicit focus on sustainability, strategic capacity, training, and coordination. As agreed with IMF, the cluster TA will provide all elements in the TCAP's budget management section except (i) five annual postgraduate scholarships at the masters level in public finance overseas, (ii) treasury operations at a basic level of automation, and (iii) four out of five study tours (the TA provides only for one). IMF will arrange other funding for these components. The TCAP framework identifies five types of assistance that can be provided:

- (i) posting of a resident adviser,
- (ii) peripatetic visits by experts,
- (iii) seminars and study tours overseas,
- (iv) formal and informal training in Cambodia and overseas, and

⁶ The Board will be informed of the progress of the TA cluster through a brief information paper.

⁷ Ministries of health; education, youth, and sports; agriculture; and rural development. In addition, budgetary issues concerning the Ministry of Defense are expected to be addressed as part of demobilization exercise.

- (v) provision of materials and equipment.

13. The TA will provide a mix of these types of assistance to strengthen capacity to achieve the fiscal management objectives. The outline terms of reference for the consulting services are given in Appendix 2. The focal point for the TA will be to build capacity in BSEC.⁸ This will enable BSEC to act as a strategic hub for budget reforms within MEF, and to ensure a coordinated approach in the following areas:

- (i) The financing of programs designed within the Socioeconomic Development Plan (including the public investment plan) should be consistent with the funds provided for these programs in the national budget and in MTEF.
- (ii) The expenditure implications of sectorwide approach programs and the forthcoming Poverty Reduction Strategy Paper should be consistent with projections in the MTEF.
- (iii) BSEC should be responsive to urgent requirements for setting up priority groups as a first stage toward broader civil service reforms.
- (iv) MEF should be ready to implement the Priority Action Program (PAP), designed to decentralize resources for key projects in health, education, agriculture and rural development, taking into account the project budgetary processes that the Social Economic Improvement Local Agency has for the four northwest provinces. MOH, with support from the World Health Organization (WHO) and the Australian Agency for International Development (AusAID), has designed a pilot project to test the PAP in seven provinces. However, as pointed out in a recent report,⁹ “the master plan for the successful introduction of PAP is the responsibility of the MEF. Roll out of the PAP to other social ministries would also be the responsibility of the MEF, together with associated capability building assistance within these ministries.”
- (v) MEF must be prepared for fiscal devolution in the mediumterm, in accordance with the stated Government intention to proceed carefully with devolving spending powers to the provincial, district, and commune levels.
- (vi) The role of information and communication technology must be considered in strengthening the capacity for fiscal management.
- (vii) Although BSEC is a useful entry point for budget reforms, a clear process is needed for feeding reforms into the daily business of MEF and other ministries, and provinces. BSEC will monitor that reforms are being carried out, while actual budget implementation will need to be monitored by the Budget and Financial Affairs Department.
- (viii) The structural links between budget reforms and social sector reforms need strengthening, including through improved institutional links between MEF and priority sector ministries. There are proposals for the establishment of a joint MEF-social sector ministry, high-level budget reform monitoring committee, and of a small interministerial technical group that would closely link the relevant parties.

14. Adequate training in fiscal management for BSEC members and other key stakeholders is critical to ensure that the outputs delivered by this TA are sustainable. Training also provides an important professional incentive to members of BSEC and key stakeholders. The IMF TCAP identifies a series of formal and informal training initiatives. Based on the investigations of the

⁸ The inception report will contain more clarification on BSEC, other fiscal management mechanisms, and their interrelationships.

⁹ AusAID, 2000, “Design of Public Expenditure Management System for PAP in Ministry of Health”, draft paper.

Mission and discussion with Government personnel and other key stakeholders, the most appropriate training package will provide operational and practical inputs and enhance strategic capacity building of the significant formal capacity created by previous TA initiatives at the middle management level within MEF and other organizations involved with public financial management.

15. MEF also benefits from the successful creation of the Economic and Finance Institute (EFI), funded under a World Bank-financed TA.¹⁰ EFI hosts the economic advisory team of MEF, and a recent review commissioned by the World Bank has endorsed the quality and relevance of the training that provided staff development and library resources. The report also emphasized the need to provide customized, skill-enhancing courses.

16. The Mission therefore proposes to implement the public finance training aspects using EFI as the Implementing Agency within MEF. The training will consist of a series of operational courses in macro-fiscal policy, expenditure forecasting skills, treasury management, and fiscal devolution. Participants will be drawn from BSEC and, where relevant, from personnel in other parts of MEF and other line ministries. Each training activity will generate

- (i) strategy papers, which will provide the Government with strategic inputs for macro-fiscal policy and fiscal devolution; and/or
- (ii) technical papers, which will provide analysis of fiscal management, budget formulation and implementation, and fiscal devolution.

17. These peer-reviewed papers will provide demonstrable evidence of improved capabilities within MEF. With the new capabilities, the demand for significant external assistance in budget management at the end of the TA is expected to be of an incremental, rather than substantive, nature.

18. The training program will be monitored by a team, including the principal fiscal adviser, the secretary general of MEF and economic adviser to the prime minister, and the director of EFI. The principal fiscal adviser will design and implement each training activity, and, where necessary, identify appropriate experts to support this effort.

19. The TA will also work closely with the Council of Ministers and other authorities in creating priority groups of personnel selected on the basis of their qualifications and professional track record. These groups will receive advanced training and other professional resources to enable them to deliver key inputs, and, in the medium term, will be provided additional remuneration as and when increased economic growth, civil service reform initiatives, and improved fiscal performance generate incremental resources and a framework for financial and professional incentives to be provided to priority group members.

20. Within MEF, there is agreement on creating a focal group with the same objectives as the proposed priority groups, a move endorsed by the recent consultative group meeting in Paris. This group will work in a new unit called the BSEC. Supporting the creation of BSEC, and providing expertise and training to enable it to provide strategic and operational macro-fiscal inputs, will be extremely beneficial in improving governance within MEF. Some specialist input and training will also be provided to MOH and Ministry of Education, Youth and Sports.

¹⁰ World Bank, *Cambodia Technical Assistance Credit*, IDA 2664-KH (1994)

21. The component will be implemented by Cambodian officials, facilitated by a principal fiscal adviser. The adviser will be an international consultant working in coordination with the ADB resident representative, director of EFI, project coordinator, and chairman of BSEC.

22. **Audit Component.** This component will have four parts: (i) institutional development and capacity building in NAA, (ii) establishment of an effective internal auditing function at MEF and MOH, (iii) strengthening of capacity at the Finance and Banking Commission of the National Assembly, and (iv) redefining of the role of the Department of the Financial Inspection (DFI) and strengthening of its capacity to monitor and evaluate the implementation of the fiscal budget.

23. Staff recruited to NAA will need to develop skills in conducting financial performance and compliance audits. This will entail developing a comprehensive training program to be provided by the consultant, at NAA's headquarters and elsewhere. Audit manuals for performance and compliance auditing will be required to help the staff conduct such evaluations. Audit procedures for reporting and administration will also be developed. The consultant will design the communication and information flows between the Auditor General's Office and internal audit in line ministries, the Finance and Banking Commission of the national assembly, DFI, provincial governments and agencies, and the Ministry of the National Assembly-Senate Relations and Inspection.

24. The component will focus on developing the framework within MEF and MOH for effective internal auditing. By having an effective internal audit function, management in a ministry is assured that the control framework is adequate and is working as intended. NAA, by reviewing the work performed by the internal auditor, can thus form an opinion on the adequacy and quality of the internal audit work done. Where the external auditor is satisfied that the work of internal audit meets professional standards, the external auditor can then rely on this work and reduce the extent of review that is required. If this pilot test is successful, the concept and methodologies can be extended to the other line ministries and state enterprises as a model to be followed. NAA's effectiveness in the longer term will thus be enhanced.

25. In addition, a framework will be developed for strengthening the Finance and Banking Commission (FBC) of the National Assembly. This will include streamlining the reporting process between NAA and FBC and preparing a mandate to enable FBC to function as a key participant in the framework of accountability. FBC's role will be expanded to establish a closer working relationship with NAA in the areas of audit planning, budget funding, and following up key audit findings. The activity will build on training to be provided by the Canadian International Development Agency (CIDA). FBC can (i) be a conduit for dialogue between NAA and parliament, (ii) have a clear role in the method of selecting and appointing the auditor general and deputy auditor generals, and (iii) enhance the auditor general's independence by supporting the auditor general's requests for budget funding to parliament and ensuring that the office of the auditor general is made accountable for its activities.

26. With the establishment of the NAA, the role of MEF's DFI will be redefined. DFI could be the internal auditor for MEF and could monitor the implementation of the fiscal budget of agencies funded by the Government's budget. DFI could also help the tax auditors in the Taxation Department audit taxpayers. It is thus essential that DFI be given a clear role, recognizing the responsibilities of NAA, internal audit, and the Ministry of National Assembly-Senate Relations and Inspection. To effectively perform in its new role, DFI will require further training and methodologies to be developed for internal audit and budget inspection. The TA will help DFI develop an internal audit charter and procedures manual, a budget inspection manual, and staff training.

27. The activities will be implemented by Cambodian officials, facilitated by a principal audit adviser, who will be an international consultant. Domestic consultants will be engaged for 52 person-months. The consultant will work with the internal audit and inspection teams in the field.

C. Cost Estimates and Financing Plan

28. The total cost of the TA cluster is estimated at \$1.415 million equivalent over a period of three years, comprising a foreign exchange cost of \$932,000 and local currency cost of \$483,000 equivalent. ADB will fund \$1.2 million equivalent to cover the entire foreign exchange cost of \$932,000 and \$268,000 equivalent of the local currency cost on a grant basis from the ADB-funded TA Program. In addition, the ADB Institute will invite Cambodia to join a financial management training-of-trainers program. The Government's contribution to the TA will be in kind and will cover items of expenditure that are estimated at \$200,000 equivalent. See Appendix 3 for details of the cost estimates and financing plan.

D. Implementation Arrangements

29. MEF will be the Executing Agency for the TA cluster. BSEC will implement the budget management and inspection component. NAA will implement the external audit components. Each implementing body has agreed to assign counterpart teams to implement the planned subprojects. MEF will facilitate the essential coordination of this TA with related assistance from IMF, World Bank, United Nations (UN) system, CIDA, and other funding agencies. A deputy secretary general of MEF will be the national project coordinator and the focal point for resolving strategic issues that arise during implementation. At specific milestones, workshops will be held to review progress and determine further work. Senior officials from MEF and from other key ministries will attend and offer guidance. ADB staff from Cambodia Resident Mission and Programs Department West, Office of the Director will be intensively involved in supervising and monitoring the TA cluster to ensure appropriate progress. The TA scope can be modified depending on the progress and needs of each component.

30. The counterpart teams will implement the TA. The consultants will facilitate the teams' functioning. The teams will be responsible for achieving the outputs of each component, except that the very technical outputs (e.g., the MTEF approach paper, and harmonization of PRSP and PAP management procedures), will be prepared by the consultants. A study tour organized jointly by BSEC and NAA in one advanced developing Asian country and one developed country will demonstrate to counterparts the operation of successful public financial management systems, and afford them in-depth discussions with the technicians responsible for implementing the systems.

31. The TA will be implemented over a 36-month period from January 2001 to January 2004. The budget is based on a total of 30 person-months of international and 72 person-months of domestic consulting. ADB will recruit individual consultants for this work. In addition, EFI will be the focal point for contracting to provide about 1,800 person-weeks of training using domestic trainers, and about 16 person-weeks of training using international trainers.¹¹ The TA will jointly provide, along with the ADB Institute, (i) a training-of-trainers course for seven EFI trainers on 24 May–1 June 2001, (ii) a review of EFI's financial management course agenda, (iii)

¹¹ Actual training delivered may vary depending on cost and desired levels of quality, intensity, and expertise, and will be detailed in the inception report.

external trainers to EFI, and (iv) assistance in a joint review of the results of EFI's financial management training. The TA will finance the services of consultants, engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB on the engagement of domestic consultants. A phased-service agreement will be negotiated with consultants to allow the flexibility required. At important milestones,¹² progress will be reviewed. Based on these reviews, indicative terms of reference (Appendix 2) will be further specified and adjusted as necessary.

32. The consultants will prepare inception, interim, draft final, and final reports for each component on paper and in electronic formats. The latter will be incorporated into ADB's Cambodia knowledge-base, and made available to Government officials and other stakeholders through a web site. The consultants will also assist in developing, and in some cases delivering, international and domestic training programs, and will be resource persons in domestic workshops to be organized in accordance with arrangements satisfactory to ADB. Procurement of equipment, when required, will be undertaken following ADB's *Guidelines for Procurement*.

IV. THE PRESIDENT'S RECOMMENDATION

33. The President recommends that the Board approve the provision of technical assistance, on a grant basis, to the Government of the Kingdom of Cambodia, in an amount not exceeding the equivalent of \$1,200,000 for the purpose of Strengthening Public Financial Management.

¹² Milestones will be determined by MEF management when each component is planned in detail. Milestones will be points where decisions about future directions are to be made by Ministry of Finance and Planning management to enable the component to progress.

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Better governance through improved fiscal management and audit</p>	<p>Improved strategic expenditure management and audit by the Government</p>	<ul style="list-style-type: none">• Budget papers• International Monetary Fund (IMF) country economic memorandum• Annual financial reports on Priority Assistance Program (PAP) for line ministries• Audit reports	<ul style="list-style-type: none">• National Assembly appoints suitable auditor general and provides adequate financing to enable the National Audit Authority (NAA) to function• Ministry of Economy and Finance (MEF) and NAA provide core group of competent economists and financial experts to work as counterparts.
<p>Purpose</p> <p>Support institutional modernization leading to effective fiscal management and audit</p>	<ul style="list-style-type: none">• Policy and technical papers produced• Medium-term expenditure framework (MTEF) designed• Capacities improved in fiscal management and audit• External technical assistance (TA) requirements for general or broad-based capacity building significantly reduced in fiscal management by MEF, or in audit by NAA, after 2003	<ul style="list-style-type: none">• Final report• TA completion report	<ul style="list-style-type: none">• Any change in political leadership will not result in significant changes in fiscal management or audit policies• Priority group for Budget Strategy and Enforcement Center (BSEC) and other fiscal management offices implemented without delay• Officers take their newly obtained skills to the private sector

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Fiscal management improved by strengthening BSEC's capacity to carry out macro-fiscal analysis, design an MTEF, improve 2001-2003 budget formulation, monitor implementation of PAP, and examine options for fiscal devolution</p> <p>2. Audit improved by strengthening NAA's capacity through revised regulations, policies, and procedures</p> <p>3. EFI training capacity improved in fiscal management and audit</p>	<ul style="list-style-type: none"> • BSEC's analytical capabilities increased • Improved budget formulation • Improved capability to negotiate with internal agencies on macro-fiscal issues • MTEF approach paper and other fiscal inputs well designed • Harmonization of Poverty Reduction Strategy Paper (PRSP) and Priority Action Programs (PAPs) management procedures • NAA fully operational with 40 auditors • 10 audit reports on ministries and state enterprises by 2002 • Annual reports to Parliament starting in 2002 • Accounting and auditing framework, regulations, procedures, reports, and practices aligned to international standards • Effective internal auditing function established in MEF and Ministry of Health • Effective financial inspections undertaken beginning in 2002 in customs, taxation, treasury and budget departments in MEF and 4 other ministries • Improved capabilities in macro-fiscal analysis, MTEF design, treasury and debt management, fiscal marksmanship, public accounting, 	<ul style="list-style-type: none"> • Project reports • Improved budget comprehensiveness and predictability • Peer reviews confirm high quality of policy and technical papers, including papers on MTEF design, fiscal marksmanship, intra-year deficit monitoring, public expenditure management guidelines for PAP, and fiscal aspects of decentralization • 3-year annual work plan for auditing coverage completed by 2001 • Manuals completed and translated on internal audit, inspection (2001), auditing policies and procedures (2002) • Project reports • Financial inspection reports of the Department of Financial Inspection • Improved audit quality based on agreed standards • Internal audit reports of four key areas within MEF and Ministry of Health completed by 2003 • Annual training programs prepared • Effective partnership between Asian Development Bank Institute and EFI • MEF and NAA satisfied with training 	<ul style="list-style-type: none"> • Principal fiscal adviser appointed and provided with necessary infrastructure • Economic and Finance Institute (EFI) effectively designs and carries out training • BSEC officers stay in post for duration of TA • Government willing to implement changes to improve budget predictability and for MTEF design • Commitment from senior management to maintain a control environment, and appointment of suitable staff, given that under Audit Law, auditor general can set competitive salaries • Risk that National Assembly may be unable to ensure that corrective action is taken based on audit findings • EFI assembles stable roster of technically competent trainers • Participants view training provided as enhancing professional development

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
	and audit (external and internal)	relevance and results	prospects <ul style="list-style-type: none"> • Line ministries provide participants with adequate prior formal training, and deploy them after training to functions where their newly acquired skills can be optimally used
<p style="text-align: center;">Inputs</p> Consulting services Training Study tour in one advanced developing Asian country and one developed country.	<ul style="list-style-type: none"> • Ability to meet TA requirements, including outputs and schedule • Enhanced capabilities of trainers and participants 	<ul style="list-style-type: none"> • Timely and high quality reporting • Independent review of training program • Study tour team's policy papers on fiscal management and audit in the countries visited, drawing implications for Cambodia 	Government provides counterpart staff and contributes office accommodation and other support facilities

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

A. Principal Fiscal Adviser (International)

1. The principal fiscal adviser will work with the Budget Strategy and Enforcement Center (BSEC) and the Economics and Finance Institute (EFI) to implement the fiscal management component of the Technical Assistance . The adviser will be deployed for 16 person-months over a period of three years, working from EFI. The adviser will be supported by 12 person-months by a domestic consultant. The deployment will follow a time frame that is designed around the budget calendar and other strategic considerations, in consultation with the Asian Development Bank (ADB) resident mission and senior Ministry of Economy and Finance (MEF) management. The adviser will work in four subcomponent areas.

1. Budget Formulation and Strategic Expenditure Analysis

2. To help improve capacity for budget formulation and strategic expenditure analysis the consultant will

- (i) formulate a plan for the development and support of BSEC, in close consultation with the Chairman of BSEC and senior MEF officials, as part of the inception report;
- (ii) review the organizational structure of BSEC and suggest alterations to allow for integration of the budget reforms in MEF's mainstream business processes;
- (iii) agree on a detailed capacity building and work plan for BSEC members; and
- (iv) advise and assist the ADB resident representative and the Government in preparing for fiscal aspects of the consultative group and other meetings.

2. Medium-Term Expenditure Framework (MTEF) Design and Other Strategic Initiatives

3. To help advise and assist the MEF and relevant funding agencies in formulating the design for the MTEF, and help design the fiscal components of other strategic initiatives, the consultant will

- (i) in consultation with senior MEF management and the International Monetary Fund (IMF) resident mission, prepare a paper with recommended objectives and steps toward implementing the MTEF;
- (ii) organize a workshop bringing together key stakeholders involved in the MTEF to provide inputs for MTEF design, and prepare a policy paper summarizing recommendations;
- (iii) advise and assist BSEC staff in preparing a draft MTEF design and policy paper;
- (iv) arrange for peer review of MTEF design document by liaising with IMF, World Bank, and ADB resident missions and finalize the MTEF design;
- (v) advise MEF on additional TA needed for MTEF design and implementation;
- (vi) organize the final workshop on the MTEF to finalize design and policy paper for presentation to the consultative group meeting in 2003.

(Reference in text: page 4, para. 13)

3. Assisting Fiscal Devolution

4. The consultant will
- (i) prepare quarterly monitoring reports on the implementation of the Priority Action Program (PAP) in the (MOH) in the initial 7 provinces, and supervise the domestic consultant in preparing quarterly monitoring reports on the implementation of the PAP in the Ministry of Education, Youth and Sports (MOEYS) in the initial 10 provinces, to (a) extend implementation to other provinces, (b) establish systems and procedures to implement the PAP in other line ministries, and (c) identify capacity needs for such implementation;
 - (ii) prepare a strategy paper for the devolution of expenditure responsibilities to line departments and/or communes, districts, and provinces in accordance with future Government decisions on devolution;
 - (iii) prepare a strategy paper on harmonizing PAP expenditure management procedures with those established in the MTEF, Poverty Reduction Strategy Paper (PRSP), and Socio-Economic Development Plan (SEDP); and
 - (iv) advise BSEC in designing generic PAP guidelines, and organize a workshop to finalize them.

4. Training

5. The consultant will
- (i) identify the relevant training inputs required for BSEC to be able to undertake macro-fiscal analysis provide strategic fiscal advice, and negotiate effectively with funding agencies, in collaboration with EFI management;
 - (ii) identify the relevant training inputs required for implementing the MTEF and fiscal devolution subcomponents in accordance with the TA framework,¹³ and in consultation with EFI staff;
 - (iii) agree on a costed annual programs of training for the component with EFI in close consultation with the ADB resident mission;
 - (iv) arrange to provide the identified training inputs by designing and delivering and/or arranging for delivery of a suitable training program, in collaboration with EFI management; and
 - (v) organize and monitor output (as identified in the logical framework) for a study tour.

B. Principal Audit Adviser (International)

6. The TA will deploy a principal audit adviser for 14 person-months (subcomponent 1, for 10 person-months; 2, for 2 person-months; 3, for 1 person months; and 4, for 2 person months) for over a period of three years, working initially from the MEF, and moving to the National Audit Authority (NAA) when it is operational. This advisor will be supported by 60 person-months of domestic consultants.

1. National Audit Authority

7. To enable institutional development and capacity building in NAA, the consultant will
- (i) train audit staff to apply the methodologies and procedures in the manuals on internal audit, inspection, auditing policies, and procedures;

¹³ Appendix 1

- (ii) assist staff in conducting field audits;
- (iii) arrange workshops and seminars on the new audit law;
- (iv) design and deliver specific training to senior NAA staff;
- (v) establish a training facility and training the research and training unit within NAA;
- (vi) develop procedures for interfacing with internal audit, the Finance and Banking Commission (FBC), the Department of Financial Inspection, the Ministry of National Assembly-Senate Relations and Inspection, and the Anticorruption Unit in the Council of Ministers;
- (vii) prepare an outline of the format and contents of NAA's annual report to the National Assembly;
- (viii) prepare a five-year work plan for NAA and auditing standards to be adopted by the NAA; and
- (ix) prepare a study tour for officers involved in public finance and audit.

2. MOH and MEF

8. To strengthen internal audit capacity in MOH and MEF, the consultant will
- (i) assist management to start the internal audit activity;
 - (ii) prepare a suitable internal audit mandate;
 - (iii) develop an appropriate organizational structure and reporting arrangements;
 - (iv) prepare suitable procedures manuals for internal audit;
 - (v) assist the domestic consultant and the audit team to conduct field audits; and
 - (vi) develop a training program on internal control assessment, public accounting requirements, and modern internal auditing techniques.

3. FBC

9. To strengthen FBC's capacity, the consultant will
- (i) define FBC's role and responsibilities for parliamentary oversight of financial management legislation and implementation;
 - (ii) prepare a draft mandate for FBC;
 - (iii) hold workshops for FBC members on their role and functions; governance, accounting, and auditing issues; and codes of behavior and ethical conduct;
 - (iv) develop procedures for communicating with NAA, MEF and other relevant agencies and for seconding expert staff to FBC;
 - (v) facilitate participation of two FBC members in the study tour planned under the auditing and public finance components of this TA; and
 - (vi) coordinate with capacity strengthening of the National Assembly, financed by the Canadian International Development Agency (CIDA).

4. MEF

10. To strengthen the capacity in budget inspection in MEF, the consultant will
- (i) develop procedures for conducting these inspections in a more effective manner, and
 - (ii) write an inspection procedures manual and train staff in its use.

C. Fiscal Consultant (Domestic)

11. The fiscal consultant, under the guidance of the principal fiscal adviser, will assist with subcomponent 3: assisting fiscal devolution, for 12 person-months over a period of three years. Specific responsibilities will include

- (i) monitoring the implementation of the PAP in MOEYS in the initial 10 provinces, with a view to (a) extending implementation to other provinces, (b) establishing systems and procedures for implementing the PAP in other line ministries, and (c) identifying capacity needed for such implementation (at least one field visit will be required to each of the 10 provinces).
- (ii) providing inputs from PAP implementation in a strategy paper for devolution of expenditure responsibilities to line departments and/or communes, districts, and provinces in accordance with future Government decisions on devolution; and
- (iii) providing inputs from MOEYS work in a strategy paper on harmonizing PAP expenditure management procedures with those established in the MTEF.

D. Audit Consultants (Domestic)

12. 40 person-months of audit consultancy will be required (under component 2, 20 person-months working with MEF, and 20 person months working with MOH), focusing on the external and internal auditing modules. Under the guidance of the principal audit adviser, the consultant will help

- (i) establish an effective internal audit function within MOH and MEF;
- (ii) prepare an internal audit mandate and raise awareness within MOH and MEF of the objectives of internal audit;
- (iii) design an appropriate organizational structure and position descriptions for the internal audit group;
- (iv) develop internal audit procedures manuals and train staff in applying the methodologies and procedures outlined in these manuals;
- (v) work with the chief internal auditor and audit teams in conducting field assignments from planning through to final reporting;
- (vi) develop a three-year work plan using a risk-based methodology for identifying auditable units;
- (vii) develop a training program and undertake training in internal control and financial management systems (the training will also cover quality control techniques, risk identification, preparation of working papers, documentation of findings, interviewing techniques, use of internal control questionnaires and reporting, and follow up of audit recommendations) ;
- (viii) act an interpreter in meetings and training sessions, help translate documents and coordinate translation work to be contracted to others;
- (ix) prepare copies of training materials, reserve the venue for training, and liaise with training participants and other resource persons; and
- (x) perform other tasks that may be assigned by the principal audit adviser.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultant	700.00	0.00	700.00
ii. Domestic Consultants	0.00	72.00	72.00
b. International and Local Travel	40.00	30.00	70.00
c. Reports and Communications	4.50	10.00	14.50
2. Equipment ^a	18.50	0.00	18.50
3. Training, Seminars, and Conferences			
a. EFI Training	0.00	110.00	0.00
b. ADBI TOT Program ^b	5.00	0.00	0.00
c. Study Tour	20.00	0.00	0.00
4. Misc. Admin. And Support Costs	4.00	6.00	10.00
5. Contingencies	140.00	40.00	180.00
Subtotal (A)	932.00	268.00	1,200.00
B. Government Financing			
1. Office Accommodation and Transport	0.00	50.00	50.00
2. Remuneration and Per Diem of Counterpart	0.00	125.00	125.00
3. Others	0.00	40.00	40.00
Subtotal (B)	0.00	215.00	215.00
Total	932.00	483.00	1,415.00

EFI = Economic and Finance Institute, ADBI = Asian Development Bank Institute, TOT= Training of trainors

^a 2 computers with software, 2 laser printers, 2 uninterrupted power supplies, high-volume photocopier, multimedia projector, fax machine; all will be handed over to EFI on completion of the TA.

^b In addition to a contribution from this TA toward travel and accommodation for participants for the TOT program, ADBI will provide in-kind support. This support will be approved separately by the Management of ADBI.

(Reference in text: page 7, para. 28)