ROYAL GOVERNMENT OF CAMBODIA

Steering Committee of the Public Financial Management Reform

Report of the Evaluation on The Public Financial Management System of Cambodia 2015

based on Public Expenditure and Financial Accountability Methodology

Facilitated and Prepared by

General Secretariat of Steering Committee of the Public Financial Management Reform

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CURRENCY AND EXCHANGE RATES
Currency: Cambodian Riel (KHR)
1.00 KHR = 0.000245 USD
1.00 USD = 4,082 KHR
(rates as at 30 December 2014)

GOVERNMENT FISCAL YEAR (FY)
1 January – 31 December

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Acronyms and Abbreviations

ADB	Asian Development Bank
AusAid	Australian Aid Agency
BS	Budget Support
BSP	Budget Strategic Plan
CAP	Consolidated Action Plan
CCC	Cambodia Chamber of Commerce
CDC	Council for Development of Cambodia
CMTC	Cash Management Technical Committee
CMU	Cash Management Unit
CoA	Chart of Accounts
DMFAS	Debt Management and Financial Analysis System
DCDM	Department of Cooperation and Debt Management
DIC	Department of Investment and Cooperation
EC	European Commission
FAD	Financial Affairs Department
FMIS	Financial Management Information System
FY	Fiscal year
GDB	General Department of Budget
GDCE	General Department of Customs and Excise
GDEPFP	General Department of Economic and Public Finance Policy
GDIA	General Department of Internal Audit
GDNT	General Department of National Treasury
GDPP	General Department of Public Procurement
GDSNAF	General Department of Sub-National Administration Finance
GDSPNTR	General Department of State Property and Non-Tax Revenue
GDT	General Department of Taxation
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GSC	General Secretariat of Public Financial Management Reform Steering Committee
HRMIS	Human Resource Management Information System
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency

KHR	Cambodian Riel
KIT	Khmer Information Technology
LM	Line ministry
LOT	Law on Taxation
MAFE	Ministry of Agriculture, Forestry and Fisheries
MCS	Ministry of Civil Service
MCFA	Ministry of Culture and Fine Arts
MEF	Ministry of Economy and Finance
MEYS	Ministry of Education, Youth and Sports
MLVT	Ministry of Labor and Vocational Training
MOC	Ministry of Commerce
MOH	Ministry of Health
MOI	Ministry of Interior
MOP	Ministry of Planning
MND	Ministry of National Defense
MPWT	Ministry of Public Works and Transport
MSAVYR	Ministry of Social Affairs, Veterans and Youth Rehabilitation
MTEF	Medium-Term Expenditure Framework
NAA	National Audit Authority
NBC	National Bank of Cambodia
NSDP	National Strategic Development Plan
OCM	Office of the Council of Ministers
ODA	Official Development Assistance
O&M	Operations and Maintenance
PAE	Public Administrative Entity
PCA	Post Clearance Audit
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIP	Public Investment Program
PPP	Public-Private Partnership
RGC	Royal Government of Cambodia
SIDA	Swedish International Development Agency
SNA	Sub National Administration
TIN	Taxpayer Identification Number

TOFE	Table of Fiscal and Economic Operations of the Government
TSA	Treasury Single Account
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank

Preface

Using the Performance Measurement Framework tool of Public Expenditure and Financial Accountability enables us to evaluate the progress, challenging problems, and necessary work to revise and continue to implement the Public Finance Management Reform Program, especially showing about the changes in capability and capacity of the government as compared to the similar results reported in 2010 by the independent evaluator. The results of the PEFA assessment will be the basis for organizing the Third Consolidated Action Plan (CAP3) in order to achieve the implementation of the whole reform program. Meanwhile, PEFA has helped to determine the condition or shortages of public finance management systems to be revised and strengthened, especially for the relevant general departments of the Ministry of Economy and Finance but also for several other ministries and organizations. Furthermore, the PEFA exercise helps to strengthen the capacity of the General Secretariat of Steering Committee of Public Financial Management Reform (GSC) to determine the future direction and strategies of the Public Finance Management Reform Program.

Therefore, the general departments of the Ministry of Economy and Finance and ministries and organizations should pay attention to the results of the PEFA assessment and check the report as a base for strengthening the organization of Action Plans of their own general departments, ministries, and organizations.

Summary Assessment

I. Introduction

The Royal Government of Cambodia (RGC) has embarked on an ambitious Public Financial Management Reform Program (PFMRP) since 2004, the first stage of which focused on building budget credibility and the second stage of which focused on preparing for financial accountability. The previous PEFA assessment, published in 2010, identified important strengths in the robust budget preparation process, improved in-year predictability of funding of the budget and the gradual expansion of the Treasury Single Account. However, it also identified challenges to further maintain and strengthen the credibility of the budget.

This Public Expenditure and Financial Accountability (PEFA) performance assessment – conducted in 2015 - is the second such assessment in Cambodia. The main objectives of the current assessment are to provide a basis for formulating the next action plan for implementation of the PFM Reform Program and to track the progress since the last assessment. The assessment follows the PEFA Framework methodology and supporting guidelines and clarifications to the Framework.

Following the philosophy of the PEFA framework this performance report does not comment on policy and capacity issues. It also does not include any specific recommendations for PFM improvements, which will be the subject of a different paper.

The report is the product of the combined efforts of a team of government officials preparing the initial assessment and a team of international consultants validating and supplementing the internal assessment. The assessment is focused on PFM systems performance during FY2014 or the most recent period before that for which data was available. The evaluation has covered the mid-level administration of the government including the twelve general departments of the Ministry of Economy and Finance as well as other central finance agencies and a sample of large line ministries and other important and independent organizations. The evaluation only covered sub-national government at commune/sangkat level and the 15 public enterprises as regards central government's monitoring of their finances.

This section of the report provides an overview of the current strengths and weaknesses of Cambodia's PFM systems, an integrated assessment of the extent to which this performance may impact upon the achievement of the three main objectives/outputs of sound PFM - namely aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. This is followed by a summary of the main performance changes in the functioning of the PFM systems since the PEFA assessment report of 2010 and a brief summary of ongoing reforms and the outlook for continuing reforms.

II. Overview of the Assessment of PFM Systems Performance

Table A provides an overview of the performance ratings on the 28 government performance indicators and the 3 donor practice indicators, including details of the 76 indicator dimensions. The scores are extracted from the scoring tables for the individual indicators in Section 3 of the report, where context, evidence and justification for each score are presented. The list of indicators is organized according to the structure of the PEFA indicators as per the core dimensions of PFM.

Overall, the government systems show strong performance (scores of A and B) on aggregate budget outturns for both revenue and expenditure (PI-1 and PI-3), on transparency in inter-governmental fiscal relations (PI-8) and in orderliness and participation across government in the annual budget formulation process (PI-11).

Most of the PFM functions reflected in the remaining government performance indicators show significant weaknesses (score C and D), although sub-systems represented by individual indicator dimensions indicate strengths in many narrower, functional areas (in 15 of the remaining 24 government indicators).

In general, the donor practice indicators indicate significant weaknesses i.e. low levels of support to or trust in the functioning of government systems from development partners.

However, the performance of PFM systems is not an end in itself, but a means to assist the government in delivering the main fiscal or budgetary outcomes, and thus to ensure that management of the public financial resources are effectively supporting the delivery of the government's policy objectives and targets.

III. Assessment of the Impact of PFM Strengths and Weaknesses

III.1 Aggregate Fiscal Discipline

Aggregate fiscal discipline is reflected in a combination of the coverage of the budget documentation and the ability to deliver the budget aggregates as planned. It is important for macro-economic management of the national economy. A number of PFM systems assist the Government in achieving such results.

Cambodia is performing well on budget outturn at the aggregate level, both on the domestic revenue side (PI-3) and on the expenditure side (PI-1). However, three significant weaknesses are noted on the comprehensiveness of the budget, namely (a) indications of significant amounts of expenditure arrears (PI-4 dim (i)), and (b) incomplete coverage of non-tax revenue - particularly from public administrative entities (PI-7 dim(i)). These deficiencies mean that outturn data on the budget does not entirely reflect the aggregate performance on the government's overall fiscal operations.

Good performance on the budget outturns has been assisted by realistic revenue forecasting, particularly for tax revenue, and a revenue administration that has been able to bring in the planned revenue - despite a number of weaknesses - and efficiently transfer those resources to the treasury (PI-15 dim(iii)). An orderly and timely budget preparation process ensures that all budget entities have ownership of their budgets and know their final budget allocations well before the start of the fiscal year (PI-11). Timely budget execution reports are produced monthly and are vital for monitoring of aggregate revenue and expenditure (PI-24). Cash flow planning and reliable information for line ministries on which to plan their expenditure commitments are important tools, which are also performing well (PI-16 dim(i) & (ii)). Good oversight of public enterprises (PEs) and communes/sangkats has ensured that such entities have not required unplanned demands on government resources (PI-9).

On the other hand, weaknesses remain in many PFM system elements which are important for ensuring aggregate fiscal discipline. Revenue administration systems do not ensure effective registration of taxpayers, or control of their tax liabilities (PI-14) and significant levels of tax arrears are outstanding with little progress in reducing them (PI-15 dim(i)). The lack of an effective tracking system for invoices for goods and services means that the extent and trajectory of arrears on payments to suppliers is not known (PI-4 dim(ii)). Whilst poor predictability in the disbursement of budget support from international development partners remains, this has become less important due to the reduced level of such support relative to the government budget.

Other systems should help the government avoid unexpected demands on government resources in the medium term. In this category, monitoring of debt is adequate, given the moderate debt levels (PI-17 dim(iii) and PI-12 dim(ii)). The medium term fiscal framework is still in its early stages of development with weak links from one budget cycle to the next (PI-12 dim(i)& (iv)). An overview of fiscal risks that could point to future demands from PEs and other fiscal operations is not being prepared (PI-9) and issue of loan guarantees is not covered by aggregate ceilings or similar controls (PI-17 dim(iii)).

These weaknesses suggest that the good performance on aggregate budget outturns could be at risk in case of short-term shocks to government revenue or drops in economic growth over the medium-term.

III.2 Strategic Allocation of Resources

Strategic allocation of resources reflects the government's ability to provide the required financial resources to the institutions that deliver public services and to mobilize financial resources from citizens and enterprises, in both cases in line with policy objectives and targets.

Systems strengths include the orderly and participatory approach to the annual budget formulation, including a timely and well organized legislative review (PI-11 and 27 dim(ii)) as well as reliable and timely information provided on the transfers to communes and sangkats, which prepare their own budgets independently (PI-8 dim (i) & (ii)).

However, the achievement of high level policy objectives in public service delivery requires strong policy-budget links in resource allocation also over the medium term. The PFM systems do not support this well, as strategic sector planning remains weak, except for health and education (PI-12 dim(iii)), resulting in weak links to selection of capital investment projects and lacking consideration of the recurrent budget implications of completed projects (PI-12 dim(iv)). Also, the medium-term expenditure framework is not fully developed and integrated into the budgeting process, with clear links from one budgeting cycle to the next except for budget aggregates (PI-12 dim(i)).

Furthermore, monitoring of budget allocations and their use is undermined by the lack of a unified chart of accounts which reflects classifications based on sector, function and program (PI-5) and lack of detailed reporting on implementation of externally funded projects which constitute three quarters of public investments (PI-7 dim(ii), PI-24 and D-2 dim(ii)) as well as weak systems available to track to what extent resources reach service delivery units (PI-23).

The system is also subject to frequent and significant in-year reallocations (PI-16 dim(iii)), facilitated by extensive powers given to the Minister of MEF by the legislation (PI-27 dim(iv)).

As a result, the actual allocation of resources during budget execution tends to deviate significantly from the policy intent reflected in the government's budget proposals (PI-2), which are usually approved by the legislature with only very minor amendments.

III.3 Efficient Service Delivery

Efficient service delivery reflects that financial resources are used to create value for money in the provision of public services and that waste is avoided. This is essential for maximizing the level of public services that can be delivered in relation to the revenue mobilized, and therefore for the accountability for use of public resources at all levels.

The high level of predictability in funds available to line ministries and agencies during budget execution (PI-16 dim(ii)) and to communes/sangkats (PI-8 dim(ii)) support efficient service delivery. It is uncertain, however, how strong the system would perform in the case of major shocks affecting aggregate revenue intake, as the commitment control systems are incomplete (PI-20 dim(i)).

Of particular concern for efficient use of resources is the poor performance of monitoring and transparency of the procurement systems as well as the lack of an independent complaints body (PI-19). Combined with the apparently significant delays in paying suppliers for goods and services (PI-4) – who are likely to raise prices to cover financing of outstanding invoices - the government is unlikely to generate good value for money on much of its expenditure.

Deficiencies in the internal control systems (PI-18 dim(iv), PI-20 dim(ii) & (iii) and PI-21) as well as limited effectiveness of the external oversight functions (PI-26) – despite timely and orderly reviews by the legislature(PI-28) - and low extent of public transparency (PI-10) reinforces the view that much could be done to improve efficiency in use of public resources.

III.4 Integrity of Fiscal Information

The assessment of many of the performance indicators referred to above rely on the fiscal data available. However, this fiscal data may not always be reliable. Some of the performance indicators help to understand the integrity of the available fiscal information.

In this respect, a number of weaknesses should be noted. Apart from incomplete coverage of government operations by budget documentation (PI-7) and failure to comprehensively monitor expenditure arrears (PI-4), weaknesses are found in the data reconciliation and reporting functions (PI-22 and PI-25). Furthermore, significant weaknesses have also been identified in the functions that are supposed to regularly monitor the comprehensiveness and accuracy of revenue and expenditure records and lead to mitigation of control weaknesses, including the internal audit function (PI-21), and the response to external audits (PI-26).

Table A: Overall summary of PFM Performance Scores 2015

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	B			**D+**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				**A**
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	C			**D+**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				**C**
PI-6	Comprehensiveness of information included in budget documentation	M1	C				**C**
PI-7	Extent of unreported government operations	M1	C	C			**C**
PI-8	Transparency of inter-governmental fiscal relations	M2	A	A	D		**B**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	A			**C+**
PI-10	Public access to key fiscal information	M1	D				**D**
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A		**A**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	A	C	C	**C+**
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	B	C		**C+**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	D	C	C		**D+**
PI-15	Effectiveness in collection of tax payments	M1	D	B	C		**D+**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	B	C		**C+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	B	C		**C+**
PI-18	Effectiveness of payroll controls	M1	B	C	B	D	**D+**
PI-19	Competition, value for money and controls in procurement	M2	B	D	D	D	**D+**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	C		**C**
PI-21	Effectiveness of internal audit	M1	C	C	C		**C**
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	D			**C**
PI-23	Availability of information on resources received by service delivery units	M1	D				**D**
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	C		**C+**
PI-25	Quality and timeliness of annual financial statements	M1	D	B	C		**D+**
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	NR	A	C		**NR**
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	C	B	**C+**
PI-28	Legislative scrutiny of external audit reports	M1	B	B	B		**B**
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	D	D			**D**
D-2	Financial info provided by donors for budgeting/reporting on project/program aid	M1	C	D			**D+**
D-3	Proportion of aid that is managed by use of national procedures	M1	D				**D**

IV. Change in Performance since the Previous Assessment

Table B compares the performance indicator scores of the current assessment with the scores from the 2010 PEFA report. A column indicates whether it is meaningful to directly compare the scores of the two assessments. Such a comparison is not useful for 12 of the 31 indicators, whilst for 2 other indicators (PI-27 and 28) there were no scores in 2010 to compare with. The reasons for non-comparability are (a) that the indicator structure and/or scoring criteria for three indicators were changed by the PEFA Program in 2011 (PI-2, PI-3 and PI-19), or (b) that the 2010 scores were not established on the same basis as the current scores due to either lack of data in 2010 or a different interpretation of the data requirements and their implications for the scores. Nevertheless, for ten of those fourteen indicatorsit is deemed possible to gauge the direction of change. It should be noted, that change in performance of individual dimensions of an indicator may have taken place since the 2010 report without a corresponding change in the overall indicator score. In such cases, an indication of direction of change is shown in the right-most column of the table and may imply that fundamental weaknesses remain in the indicator's subject (the overall indicator score remains unchanged) despite improvement in some aspects of the indicator (selected dimensions show improvement).

Improvement in performance (upward arrow) is indicated for 7 government indicators, whereas performance slippage (downward arrow) is found for another 3 indicators. Performance change has not been possible to gauge for 4 government indicators, and the remaining 14 performance indicators do not shown any significant change in either direction ('no' performance change).

The performance improvements are found mainly in the indicators that support aggregate fiscal discipline (PI-1, PI-3 and PI-16) and those related to monitoring and reporting of budget execution (PI-21, PI-24, PI-25 and PI-26).

Performance slippage is found mainly in the indicators that affect strategic allocation of resources and related transparency (PI-2, PI-6 and PI-10). Some drops in performance ratings appear to be the result of minor performance slippage, which may be easy to rectify, e.g. in timeliness of publishing in-year budget execution reports (PI-10).

On donor practices, predictability of budget support has deteriorated, whereas improvements have been made in reporting on project support through the CDC database and on use of country systems – the latter from a level of 12-15% to now about 25% of all external assistance.

V. Prospects for Further PFM Reforms

Whilst the overall performance of the PFM systems has only improved moderately since the 2010 report due to a number of changes in opposite directions, many important reforms have been prepared during this period and the current status of implementation suggests that these efforts may soon result in performance improvements. The current assessment only rates indicators on the basis of developments until the end of 2014. Many reform initiatives are continuing during 2015 and are described in the text boxes on 'ongoing reforms' for each indicator in Section 3 of the report.

In particular, the launch of the new FMIS system in 2015 and its gradual rollout during the coming years, as well as introduction of a more comprehensive and unified chart of accounts during 2015, could have major implications for improving the actual outturn on the intended strategic allocation of resources. Reporting of budget execution in the same format as the approved budget will be facilitated by FMIS (PI-24) as will consolidation of data across government institutions and levels of government (e.g. PI-8 dim(iii)).

Also supporting strategic allocation of resources is the planned reduction of earmarked reserves in the budget, by allocating these funds to the line ministries they relate to from 2016, as well as the continued, gradual introduction of program budgeting – also facilitated by the new chart of accounts - and the related strengthening of the budget strategic plans.

The FMIS also has the potential to address areas of weakness in related to aggregate fiscal discipline and efficient use of resources e.g. by strengthening reliability of allocations to line ministries (PI-16 dim (ii)), strengthening commitment control (PI-20 dim (i)), reporting on commitments entered and their balances (PI-24 dim(i)) and tracking expenditure arrears from date of invoice submission (PI-4 dim(ii)).

The medium term revenue mobilization strategies 2014-2018 - implemented by the revenue and customs administrations - are likely to lead to improvement in performance of indicators PI-13, 14 and 15 through higher levels of voluntary taxpayer compliance.

Since 2004, the government has followed a reform path set out in the PFM Reform Program and its four phases. Having focused on creating a credible budget in order to initially reach the functionality represented by phase 1, it is currently well into the implementation of measures to reach phase 2 focusing on internal control and financial accountability. The next step will be the transition to a Consolidated Action Plan (CAP3) focused on measures to strengthen the linkages between government policy and the budget as foreseen for platform 3.

The current report may serve as a tool to help determining the content of CAP3 and its trade-offs between reform actions to (a) consolidate already achieved targets under phase 1, (b) complete actions to achieve the planned results of phase 2 targets and (c) introduce new reforms to aim at phase 3 functionality.

Table B: Change in performance since previous assessment

	PFM Performance Indicator	Scoring Method	2010	2015	Scores Comparable	Performance Change
A. PFM-OUT-TURNS: Credibility of the budget						
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B	A	No	⬆
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	D+	No	⬇
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A	A	No	⬆
PI-4	Stock and monitoring of expenditure payment arrears	M1	C+	D+	No	?
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI-5	Classification of the budget	M1	C	C	Yes	No
PI-6	Comprehensiveness of information included in budget documentation	M1	B	C	Yes	⬇
PI-7	Extent of unreported government operations	M1	C	C	Yes	No
PI-8	Transparency of inter-governmental fiscal relations	M2	C+	B	No	No
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C+	C+	Yes	No
PI-10	Public access to key fiscal information	M1	C	D	No	⬇
C. BUDGET CYCLE						
C(i) Policy-Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	M2	A	A	Yes	No
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	B	C+	Yes	No
C(ii) Predictability and Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	C+	No	No
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	D+	No	No
PI-15	Effectiveness in collection of tax payments	M1	D+	D+	Yes	No
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C+	C+	Yes	⬆
PI-17	Recording and management of cash balances, debt and guarantees	M2	C+	C+	Yes	No
PI-18	Effectiveness of payroll controls	M1	D+	D+	Yes	No
PI-19	Competition, value for money and controls in procurement	M2	C	D+	No	?
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	No	No
PI-21	Effectiveness of internal audit	M1	D+	C	Yes	⬆
C(iii) Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation	M2	C	C	Yes	No
PI-23	Availability of information on resources received by service delivery units	M1	C	D	No	No
PI-24	Quality and timeliness of in-year budget reports	M1	C+	C	Yes	⬆
PI-25	Quality and timeliness of annual financial statements	M1	D+	D+	Yes	⬆
C(iv) External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit	M1	D+	NR	Partial	⬆
PI-27	Legislative scrutiny of the annual budget law	M1	NU	C+	NA	?
PI-28	Legislative scrutiny of external audit reports	M1	NU	B	NA	?
D. DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	M1	C	D	No	⬇
D-2	Financial info provided by donors on project/program aid	M1	D	D+	Yes	⬆
D-3	Proportion of aid that is managed by use of national procedures	M1	D	D	Yes	⬆

Note: The column 'performance change' shows direction of change since 2010, taking into account comparability of indicator scores for 2010 and 2015 and changes in performance of individual dimensions.

1. Introduction

1.1 Background and Objective of the PFM Assessment

The Royal Government of Cambodia (RGC) has embarked on an ambitious Public Financial Management Reform Program (PFMRP) since 2004, in order to change the Cambodian public finance management systems step by step to meet international standards. This is planned through gradual change of PFM systems, starting from a centralized and input based budget management system working towards systems based on results or achievementscombined with decentralization. The PFMRP was designed as a comprehensive, long term undertaking with four phases: (1) improvement of budget credibility, (2) improvement of financial accountability, (3) linking the budget to policy, and (4) improve accountability for results. The first stage of the reforms focused on building budget credibility and preparing for financial accountability. This was implementation through the first Consolidated Action Plan (CAP1) which was completed successfully in late 2008. The Public Expenditure and Financial Accountability (PEFA) assessment, published in February 2010, identified important strengths in the robust budget preparation process, improved in-year predictability of funding of the budget and the gradual expansion of the Treasury Single Account. However, it also identified challenges to further maintain and strengthen the credibility of the budget, including weak linkages between current and capital budgets. These findings contributed to the formulation of the revised CAP2 having been implemented since early 2010.

In addition to continuing to strengthen budget credibility and financial accountability, it is important now to move onto the third phase of linking the budget to the policy and pave the way for the fourth phase, the increase of accountability for results. This would be done by implementing a third Consolidated Action Plan (CAP3) which is planned to commence in 2016.

The main objective of this 2015 PEFA Assessment is to provide an update of the 2010 PEFA reportin order to take stock of achievement to date and to contribute toimproving and focusing CAP 3, which is being formulated during 2015. A more current assessment shall aim to identify and measure changes by comparing with the 2010 report findings. This repeat assessment would be a basis of identifying and determining the possible effects of the previous reform programs and the way forward.

The results of the assessment will be an important reference of the government, development partners, and other stakeholders in identifying the major gaps or deficiencies of the current PFM system as well as validating the effectiveness of past reforms. Analysis of these gaps or deficiencies will then assist the government to formulate future PFM reforms under CAP 3, and assist the development partners as the basis of formulating and calibrating the appropriate assistance to the government, given each donor partner’s areas of expertise. It will also be used as a reference for a similar assessment in the future.

1.2 Process of Preparing the PFM Assessment

To ensure development of internal capacity the assessment was carried out in two stages. In the first stage a draft PEFA assessment (internal assessment) was undertaken by a team of Government officials (also known as the Ministry of Economy and Finance (MEF) Project Team) working under the guidance of the International Monetary Fund (IMF) Regional PFM Advisor based in Phnom Penh and under the overall direction of the Secretary General of the General Secretariat of Public Financial Management Reform Steering Committee (GSC). They were assisted by a Technical Team composed of senior technical staff from the key divisions of the MEF as well as representatives from relevant institutions in the PFM system other than the MEF.

In the second stage, an extended team, comprising the MEF Project Team, the IMF Regional PFM Advisor and a team of three senior external consultants prepared the formal PEFA assessment on the basis of a validation by the external consultants of the MEF Project Team's internal assessment.

The persons constituting these teams are listed in Annex 2.

The MEF Project Team was identified, was briefed by the IMF Regional PFM Adviser and initiated the data gathering process during 2014. This data gathering process was completed during the first quarter of 2015 and the internal assessment report issued 24th May 2015.

The team of external consultants provided a desk review of the internal assessment in June, in order to identify data gaps and other issues ahead of the validation mission. This mission took place 6th – 17th July 2015. During the mission the external team, in most cases joined by members of the MEF Project Team, met with a wide range of institutions in Phnom Penh, including the central finance agencies, three of the largest line ministries as well as donor agencies, civil society and private sector representatives. The external team briefed the GSC on its preliminary findings on 17th July and submitted its first draft update of the assessment report on 10th August 2015. Comments by the GSC on the first draft were then addressed in a second draft issued 8th September 2015 which also incorporated supplementary data made available after the mission.

Box 1.1 Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

- Oversight Team – Chair & Members: MEF/GSC, IMF, WB, EU, ADB. Chaired by Dr. Sok Saravuth and Dr. Ros Seilava (ref. Annex 2)
- Assessment Manager: Dr. Hel Chamroeun
- Assessment Team Leader and Team Members: Members as listed in Annex 2 lead by Mr. Yeth Vinel and Mr. Tieng Sokphyrom

Review of Concept Note and/or Terms of Reference

- Date of reviewed draft concept note and/or terms of reference: 6 February 2014 Invited reviewers: GSC, IMF (FAD), WB, EU, ADB and the PEFA Secretariat.
- Reviewers who provided comments: Dr. Ros Seilava GSC, Suhas Joshi IMF, Leah April WB, Christian Provoost EU, PEFA Secretariat 18 February 2014.
- Date of final concept note and terms of reference: 20 March 2014.

Review of the Assessment Report

- Dates of reviewed draft reports: 2nd draft 8 September 2015 & final draft 24th November 2015.
- Invited reviewers: All GDs of MEF, IMF, WB, UNICEF, ADB, EU and major Line Ministries.
- Reviewers who provided comments:
    - IMF, GDB. GDSNAF, GDNT, GDT, GDPP and GDEPFP
    - PEFA Secretariat, 9th October 2015 and 16th December 2015
    - GDSPNTR and World Bank responded with no comments.

Quality assurance of the assessment was provided by inviting stakeholders – including the PEFA Secretariat in Washington DC - to review the 2nd draft report and provide comments, ref. Box 1.1 above. A final validation workshop took place on 21st October 2015, following which some data gaps were filled. A final draft report was prepared in November and following further peer review completed in December 2015.

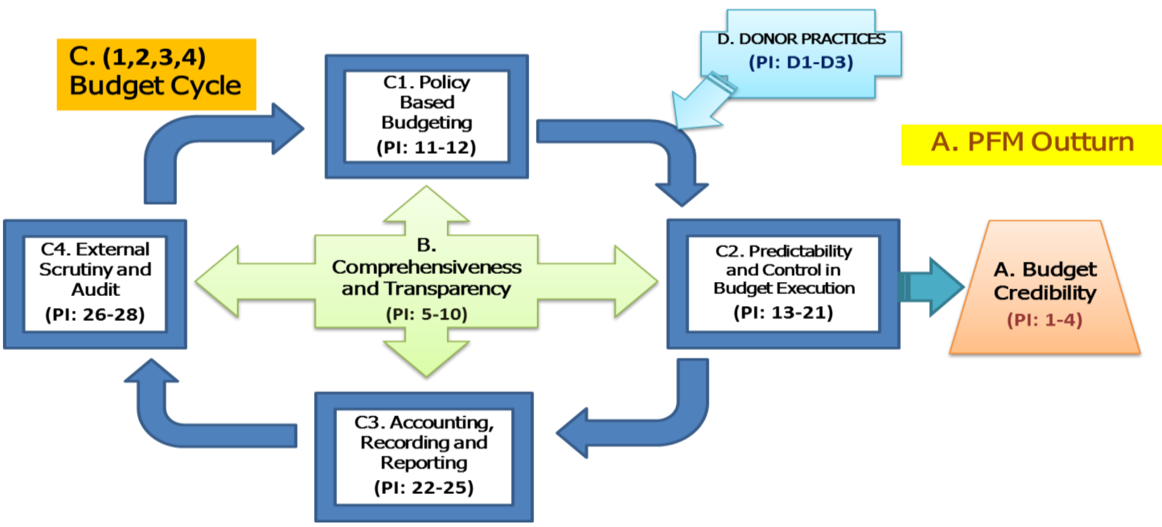
1.3 Methodology

The assessment was conducted following the PEFA Performance Measurement Framework described in the revised PEFA Framework of January 2011. Further guidance and clarifications to the Framework were used including the "PEFA Fieldguide" (May 2012) issued by the PEFA Secretariat.

The Performance Measurement Framework of PEFA is the basic tool to evaluate a country's public finance management system, focusing on the public revenue, expenditure, procurement and financial accountability systems in order to determine if the government has the tools to help it achieve three main fiscal or budgetary outcomes: (1) aggregate fiscal discipline, (2) effective resource allocation, and (3) the efficiency in public service provision. The PEFA Framework was issued for use in June 2005, and has been applied worldwide more than 360 times across more than 140 countries with different administrative heritage and structures. Over the past 10 years only minor change has been made to the Framework, namely fine-tuning of three of the 31 performance indicators in 2011[1].

The tool includes a set of 31 indicators, of which 28 are government performance indicators and three are donor practice indicators. The indicators are organized as shown in the diagram below.

Diagram 1.1 Structure of the PEFA performance indicator set.



Most of the indicators contain up to four sub-indicators, also referred to as indicator dimensions. Each dimension is scored separately and the overall indicator score is then arrived at by combining the dimensional score according to one of two methods, M1 and M2, specified for each indicator.

[1] A comprehensive upgrade of the PEFA Framework is currently being undertaken by the PEFA Program. The upgraded Framework is expected to be leased in early 2016 and be effective for PEFA assessments to be conducted thereafter. The upgrade has no implications for the current assessment.

Method 1 (M1) is based on the weakest link in the indicator subject, i.e. it reflects the lowest score given to any of the dimensions and adds a '+' if any of the other dimensions have been given a higher score. *Method 2 (M2)* is based on the average of the dimensional scores. Whilst the combined indicator score provides of overall performance in the subject area of the indicator, it is also valuable to analyze each of the dimensional scores when evaluation the strengths and weaknesses of the systems and where future reforms or capacity strengthening should be focused.

The assessment was based on the information in the public domain as well as internal documents. In addition, information was collected from the interviewed stakeholders during the validation mission. These stakeholders are listed in Annex 3. A list of the stakeholder sources and specific documents used for scoring of each of the indicators is included in Annex 4.

One of the objectives of the assessment is to track changes in performance since the previous PEFA assessment which was conducted in 2009 and completed with the report of February 2010. While the previous assessment was considered as a baseline for measuring the changes in performance, the assessment was not limited to identifying changes under individual performance indicators. One of the distinctive features of the PEFA Framework is its recognition of the inter-linkages that exist between various PFM functions and related PEFA indicators and how it affects the government's ability to achieve the main fiscal or budgetary outcomes, namely aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. Given the importance of these inter-linkages, and that changes in performance of one dimension can affect the performance of other indicators, the methodological approach was not restricted to identifying only the recent changes, but paid due attention to the functioning of the PFM systems as a whole.

A critical analysis of the comparability of the scores was part of the calibration of individual dimensions and performance change. In each case where either no changes in performance were identified, but the score either deteriorated or improved, or the score changed, but no changes in performance could be identified, an explanation of the change in performance is given.

Due to the amendment of the PEFA Framework in 2011 and consequent changes of three Performance Indicators, the comparison of three indicators is possible only to a limited extent. For the other indicators the scores were generally comparable except in few cases where the two assessments had a different interpretation of the PEFA Framework calibration requirements or where one of the assessments had been unable to score an indicator due to insufficient data to support a score.

1.4 Scope of the Assessment

The assessment provides a snapshot of the situation at the time when most of the data was initially collected by the MEF Project Team i.e. during the first quarter of 2015. The assessment of individual indicators therefore reflects the situation up until the end of 2014, with most indicators focused on performance during the most recent completed fiscal year i.e. fiscal year 2014. As complete data for FY2014 was not available for some indicators at the time of the validation mission in July 2015, the period may in certain cases cover data up to and including FY2013 only, notably the quantitative indicators PI-1, 2, 3, 4, 7(i) and 15(i).The narrative of each indicator emphasizes the reference period for which the assessment is made. Performance changes and other developments after 1st January 2015 are considered 'ongoing reforms' and summarized in a box at the end of each indicator assessment, but do not contribute to or affect the indicator scores.

Consistent with the PEFA Framework, the assessment covers the operations of central government institutions comprising ministries, departments and their provincial offices, the deconcentrated provincial and district administrations and where applicable the 26 autonomous agencies (known as Public Administrative Entities, ref. list in Annex 5.1). The assessment does not cover the sub-national government entities at the level of commune/sangkat (ref. description of sub-national government in section 2.3.8) and the 15 state-owned enterprises (see list in Annex 5.2) other than the central government's oversight functions covered by performance indicators PI-7, PI-8 and PI-9.

1.5 Structure of the Report

The report is divided into six main sections as follows.

Summary Assessment provides an overview of the current strengths and weaknesses of Cambodia's PFM systems, an integrated assessment of the extent to which this performance may impact upon the achievement of the three main objectives/outputs of sound PFM - namely aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. This is followed by a summary of the main performance changes in the functioning of the PFM systems since the PEFA assessment in the 2010 report and a brief summary of ongoing reforms and the outlook for continuing reforms.

Section 1 Introduction describing the general purpose of the PFM assessment as well as process, method and scope of the assessment.

Section 2 Cambodia Background Information briefly describes the overall government reform environment, the macro-economic situation and policies of Cambodia as well as budget implementation outcomes during recent years. It also explains the legal and institutional framework for public financial management reform work and the structure of the public sector.

Section 3 provides the indicator-based **Assessment of PFM Systems, Processes and Institutions** presenting the detailed description of the situation concerning each indicator subject, the score for each indicator and its sub-indicators, and the evidence upon which the assessment has been done. It is divided into seven sub-sections in line with indicator group shown in the diagram above i.e. 3.1) Budget credibility, 3.2) Comprehensiveness and transparency of budget, 3.3) Policy-based budgeting, 3.4) Predictability and control in budget implementation, 3.5) Accounting, recording and reporting, 3.6) External inspection and audit, and 3.7) Donor practices.

Section 4 Changes in PFM Performance since 2010 summarizes the findings from the 2010 PEFA assessment report, and the performance as assessed in 2015 in order to identify changes in performance.

Section 5 Evolution of Government PFM Reforms describes the progress and next steps of the reform program and indicates political and institutional will in the reform program as well as strategy, leadership and mechanism for follow-up and monitoring.

As an input to the further work on developing the Consolidated Action Plan (CAP3) for the next phase of the PFMRP, a **list of recommendations** have been compiled by the PFM Evaluation Team and is included in Annex 6. The list in linked to issues identified for each of the performance indicators during the assessment. The list is neither a complete reflection of the actions needed as part of CAP3, nor does it include any kind of recommended prioritization or sequencing.

2. Cambodia Background Information

2.1 Description of country economic situation

2.1.1 Country context

Cambodia is a constitutional monarchy adhering to the principles of liberal democracy and pluralism. The population is estimated at about 15 million, of whom 78 percent live in rural areas. The annual population growth rate is close to 1.5%. Since the constitutional reforms during the 1990es, the task has been to build institutions of democratic governance and to strengthen economic policies.

Strengthened governance (including PFM) and related policies have contributed to robust economic growth in recent years, low inflation, and reduced poverty. Economic growth has averaged 7 percent a year over the last four years, driven by mining, industry and construction, though agriculture is still the most important sector in the economy. Inflation has remained at about 3% p.a., well below the target of below 5%. The economy is largely dollarized with a stable KHR/USD exchange rate; international reserves have remained above 4 months value of imports. With an average GDP of USD 1043 per capita Cambodia is approaching lower middle income status.

The poverty rate declined steadily from 47 percent on average during 1990-1995 to 30 percent in 2007 and 18 percent in 2013. Urban poverty is lower at 14-15 percent. Other social indicators have improved, including primary school enrollment (net) increasing from 90 to 97 percent over the past six years, and rural access to safe water improving from 41 percent to 44 percent. Life expectancy at birth has also may steady gains and is now estimated at 67 years for men and 71 years for women.

2.1.2 Overall government reform program

Good governance remains at the core of the RGC's current development strategy i.e. the Rectangular Strategy Phase III. Four major reform areas to promote good governance continue to be RGC's priority in its pursuit for achieving sustainable, steady, and equitable socio-economic development, equal opportunity, equality before law, and social justice. These are: (i) fighting corruption; (ii) legal and judicial reforms; (iii) public administration reforms (including decentralisation and deconcentration); and (iv) reform of the armed forces. The ultimate objective of the reforms, as well as that of other reform programs including public financial management reform, land reform, and forestry and fisheries reform, is to strengthen the capacity, efficiency and quality of public services to raise public confidence in government and respond to the needs and aspirations of the people and business community.

Some key challenges for future development have been listed in the National Strategic Development Plan (NSDP) 2014-2018 including:

- With the economy moving towards lower middle income status, the country will soon become less eligible for grants and will have to rely on (concessional or other) loans to finance public sector investments.

- Cambodia is expected to integrate into the ASEAN Economic Community by the end of 2015. Many barriers between the countries will come down. The government needs to be prepared for free movement of skilled workers and capital, equalization of tax rates and reduction in taxes on international trade. These will pose issues for the labor markets, industrialization policy, land use, and budget revenues.

- The next phase in good governance will require significant efforts to introduce e-governance to strengthen effective governance. For this to happen, the government will require 'electronic wiring' of the whole country, developing on-line databases at different levels, and providing e-services. Investment in human capacities within the government and physical investments required for modernizing governance will thus assume an important place.

- For Cambodia to have greater control over its economy (esp. the monetary policy), its currency should become acceptable for all transactions both domestically and to the countries in the region. De-dollarization is thus an important goal.

- Environmental issues must also be central to development, which is currently not the case. There is scope to step up efforts to save especially the Tonle Sap (and other water systems) and forests for sustainable development, sustainable livelihoods of people in rural areas, and sustainable agriculture.

2.1.3 Rationale for PFM reforms

A description of the Public Finance Management Reform Program (PFMRP) is provided in section 4 of this report.

2.2 Description of budgetary outcomes

2.2.1 Fiscal performance

Tables 2.1 and 2.2 below show RGC's fiscal performance from 2011 to (estimated) 2014. The tables are drawn from the latest IMF Article IV discussion and staff analysis, and cover general government. This goes a little wider than the scope of this PEFA report, as general government includes sangkat/ communes. However, these inclusions do not make any significant difference, as sangkat/communes collect very little revenue and are almost wholly dependent on central government transfers. The classification is in accordance with the GFSM 1986, with which current reporting is more in line than the GFSM 2001[2]. It should be noted that data in these tables may not agree with data in other tables or with Annex 5 on the calculation of PI-1, PI-2 and PI-3 for various reasons, such as the omission of externally-financed project expenditure in PI-1 and PI-2.

The tables show that revenue mobilization has improved over the last three years, rising from 13.1% to 17.4% of GDP. Expenditure growth has been constrained despite salary increases taking a higher share of GDP. Some of the saving has been on capital expenditure (down from 8.7 to 8.1% of GDP). The overall balance has improved from a deficit of 7.5% to a deficit of 4.2%, giving more fiscal space. Simultaneously the recurrent budget balance has improved from a surplus of 0.9% of GDP to a surplus of 3.1%.

2.2.2 Allocation of resources

Before the implementation of the new chart of accounts in 2015 there was no COFOG or other functional classification beyond the very rough sector classification into General Administration, Defense and Security, Social and Economic Administration, and Miscellaneous. Therefore, no functional classification of expenditure is available for the period covered by this assessment.

2.2.3 Fiscal Policy Targets 2014-2018

According to the NSDP, the national budget revenue collection target is to increase revenues on average by 0.5 percentage point of the GDP per year. Domestic revenue is expected to increase to a minimum of 16.9% of the GDP by 2018, though ideally to about 18% as stated in the PFMRP.

On expenditures, RGC will continue to attach high importance to the socio-economic sectors, physical infrastructure, and improvement of the capacity and livelihoods of civil servants and armed forces. Thus, allocations to education will be pegged at not less than 3% of the GDP by 2018, and not less than 2% for health by 2018.

The NSDP also proposes to continue not to exceed a critical level of public debt, which in 2013 amounted to 31% of the GDP. Additional efforts will be made to increase the recurrent budget surplus, to ensure that there is no default on public investment and debt service, and to protect the country's reserves at above 4 months' value of imports. The government plans to reduce the overall budget deficit to 3% of the GDP by 2018.

[2] The Article IV reports offer presentations on both 1986 and 2001 formats.

Table 2.1: General government fiscal performance 2011-14 (KHR billions)

	2011 actual	2012 actual	2013 actual	2014 rev.est.
Total revenue	6,822	8,596	9,264	11,627
Tax revenue	5,476	6,674	7,536	9,683
Direct taxes	960	1,276	1,561	1,964
Indirect taxes	4,132	4,932	5,474	7,128
Provincial taxes	385	465	501	591
Non-tax revenue	959	1,344	1,435	1,580
Capital revenue	386	579	293	364
Total expenditure and net lending	10,744	12,176	13,213	14,416
Current expenditure	5,997	6,946	7,648	8,959
Wage	2,233	2,598	3,057	3,862
Non-wage	3,521	4,039	3,789	4,565
Provincial expenditure	243	308	401	532
Capital expenditure	4,548	5,122	5,475	5,384
Locally financed	1,145	1,100	1,169	1,237
Externally financed	3,403	4,023	4,306	4,147
Net lending	198	107	91	73
Overall balance	-3,922	-3,579	-3,949	-2,789
Financing	3,922	3,579	3,949	2,789
Foreign (net)	3,457	3,923	4,324	4,068
Grants	1,678	1,572	2,401	1,997
Loans	1,943	2,541	2,165	2,382
Amortization	-164	-190	-242	-312
Domestic (net)_	465	-344	-375	-1,279

Source: IMF 2015, Article IV report, Table 5

Table 2.2: General government fiscal performance 2011-14 (% of GDP)

	2011 actual	2012 actual	2013 actual	2014 rev.est.
Total revenue	13.1	15.2	15.0	17.4
Of which central government	12.3	14.3	14.1	16.5
Tax revenue	10.5	11.8	12.2	14.5
Direct taxes	1.8	2.3	2.5	2.9
Indirect taxes	7.9	8.7	8.8	10.7
Non-tax revenue	1.8	2.4	2.2	2.4
Capital revenue	0.7	1.0	0.8	0.5
Total expenditure and net lending	20.6	21.5	21.4	21.6
Current expenditure	11.5	12.2	12.4	13.4
Wage	4.3	4.6	4.9	5.8
Non-wage	6.8	7.1	6.1	6.8
Provincial expenditure	0.5	0.5	0.6	0.8
Capital expenditure	8.7	9.0	8.8	8.1
Locally financed	2.2	1.9	1.9	1.9
Externally financed	6.5	7.1	7.0	6.2
Net lending	0.4	0.2	0.1	0.1
Overall balance	-7.5	-6.3	-6.4	-4.2
Financing	7.5	6.3	6.4	4.2
Foreign (net)	6.6	6.9	7.0	6.1
Grants	3.2	2.8	3.9	3.0
Loans	3.7	4.5	3.5	3.6
Amortization	-0.3	-0.3	-0.4	-0.5
Domestic (net)_	0.9	-0.6	-0.6	-1.9

Source: IMF 2015, Article IV report, Table 5

2.3 Legal and institutional framework for PFM

2.3.1 Overall governance framework

Cambodia's Constitution was adopted by the Constitutional Assembly on September 21, 1993. It is the supreme law of the Kingdom of Cambodia and organizes Cambodia's government and institutions. All laws and regulations derive from the Constitution's provisions and must conform to it. Article 51 of the 1993 Constitution and its amendments in 1999 ensure that Cambodian citizens hold all powers to be exercised through the National Assembly, the Senate, the Royal Government (Council of Ministers) and the judiciary, and guarantees the separation of these bodies. The Constitution also addresses questions of sovereignty, the role and status of the king, the fundamental rights of the Khmer citizens, the economy, education, culture and social affairs, and the Constitutional Council.

When the National Assembly approves a law, the King promulgates it through a decree (called a Royal Kram). The law is put into effect through a series of sub-decrees approved by the Council of Ministers. Detailed orders or regulations (called prakas) are issued by the heads of relevant ministries. There is a strict hierarchy of laws.

The National Assembly and the Senate share the legislative power. Senators, members of the National Assembly and the Prime Minister have the right to initiate legislation by making draft laws or proposed laws.The legislative process usually takes a few months to be completed. However, in cases of emergency the process is shortened and laws can be approved within days. Laws are enacted after an absolute majority of the National Assembly votes to adopt the law.

The Cambodian judicial system is composed of courts of first instance, appeals courts, and a Supreme Court. According to article 128 of the Constitution, the judiciary is independent, guaranteeing and upholding impartiality and protecting the rights and freedoms of the citizens. The Constitution also states that judicial power should not be granted to the legislative or executive branches and should cover all lawsuits, including administrative ones.

The executive branch of government is led by the Council of Ministers, chaired by the Prime Minister.

2.3.2 Structure of the Public Sector

The central government comprises 38 line ministries (LMs). Each LM has a number of departments of which some are technical departments at the provincial level. The principal ministries responsible for PFM are the Ministry of Economy and Finance (MEF) and the Ministry of Planning (MOP). The organization of MEF is shown at Annex 6.The main oversight agency is the National Audit Authority (NAA).

Central government includes 26 autonomous agencies – known as Public Administrative Entities (PAEs) – each of which reports to the relevant LM (ref. list in Annex 5.1). In 2013, the turnover of PAEs was KHR 330 billion for the 16 PAEs for which data was available, almost 60% of which funded by transfers from the central government budget and the rest from own revenue collections. This suggests that PAEs account for about 5% of total government sector expenditure.

Central government also controls 15 public enterprises (PEs), which are wholly or majority owned, in addition to the National Bank of Cambodia. The total turnover of the 15 PEs in 2014 was KHR 3226 billion, of which more than 80% constitutes the turnover of the national electricity company.

In addition, central government is in this assessment considered to cover the provincial and municipality/districts levels of the sub-national administration (SNA) hierarchy (ref. section 2.3.8 below). Communes and sangkats operate as a sub-national administrative level with independent governance arrangements. Their expenditure budgets account for about 2.5% of total government sector expenditure, almost exclusively funded by transfers from the central government budget.

2.3.3 Legal framework for revenue and expenditure management

The Law on State Budget System was promulgated on May 13, 2008. Various sub-decrees and prakas have been issued to give effect to different parts of the law.[3] For instance, under Article 3 of sub-decree 81, managers cannot approve proposals for expenditure commitments: the approval stamp of the Financial Control function in MEF is first required. Under Article 8, managers issue payment orders and accompanying supporting documentation to public accountants, who are responsible for processing and making payments. Only state public accountants are authorized to handle Treasury funds (Article 72). This makes the General Department of National Treasury (GDNT) in MEF and provincial government treasuries the sole institutions in charge of paying suppliers and government personnel.

Articles 47-50 of sub-decree 82 cover commitments, Articles 53-56 cover payments orders (mandates, with visa stamps), Articles 57-63 cover payments, and Articles 64-67 cover advances. Articles 94-116 cover accounting arrangements, including the preparation of annual financial statements (Article 113).

Article 113 states that the annual financial statements should include: (i) a trial balance of accounts as per results of the account aggregation by public accountants, (ii) status of budget revenue, (iii) status of budgetary expenditures showing, for each ministerial department, the amount of expenditure per chapter certified by the relevant ministry, (iv) status of operations recorded in special Treasury accounts, (v) income statements.

Annual draft budget laws are prepared on the basis of the above legislation, and annual budget execution laws (known as budget settlement laws and effectively the annual financial statements) are first submitted by MEF (via Council of Ministers) to the NAA.

Adjustments to the original budget appropriations are regulated by Articles 55-62, through an amended annual budget law, or by sub-decrees in some case by prakas and/or circulars, issued by heads of ministries. An amended annual budget law or sub-decree is required for transfer of appropriation from one public entity to another; amendment to the annual budget law is also required in the event of natural disasters or emergencies, although it is possible instead to reflect the amendment in the draft annual budget law for the following fiscal year.

A sub-decree is required for transfer of appropriation from one Chapter to another (e.g. purchases of goods under Chapter 60 in the Chart of Accounts to purchases of services under Chapter 61), but is not allowed for transfer of capital expenditure appropriation (Chapter 21) to recurrent expenditure appropriation (Chapters 60-65). A sub-decree is required for transfer of appropriation

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[3] This law has yet to completely come into force in relation to budget implementation (article 76) because the rehabilitation sub-decree (passed by the office of the Council of Ministers) has not yet been issued.

from the reserve fund (Chapter 91, "unexpected expenditures") to other expenditure chapters.

Transfer of appropriation from one account or sub-account (representing economic classification in more detail) within a Chapter requires a prakas issued by MEF.

The main revenue agencies, General Department of Taxation (GDT) and General Department Customs and Excise (GDCE) – both under MEF - are regulated by the Law on Taxation and the Law on Customs respectively. Details of these laws and their sub-decrees and prakas are provided under PI-13 (i) below. Collection of non-tax revenue is governed by a Government Order, issued in November 2006, and various prakas have been issued concerning the technical and administrative details of each type of non-tax revenue.

2.3.4 Planning and budgeting

A dual budgeting system has been followed in Cambodia. The Budget Department in the MEF is in charge of the preparation of the current (recurrent) budget and the in-year budget implementation framework. The processes are described under PIs 11 and 16 in Chapter 3. The MOP is in charge of the Public Investment Program (PIP), which is based on the NSDP 2014-2018. All capital project proposals from line ministries are supposed to be vetted by MOP in terms of whether they should be included in the PIP. In practice, as most of the capital budget is funded by DPs, line ministries tend to deal directly with DPs, or indirectly via Council for the Development of Cambodia (CDC), whose main roles are to mobilize external funding for projects as well as to maintain a database on these projects. The introduction of program budgeting in priority areas in 2014 and strategic development plans (discussed in PI-12 in Chapter 3) have promoted the integration of current and capital budgeting.

The Department of Investment Cooperation (DIC) is in charge of putting the capital budget together. The externally-funded capital budget (which, in fact, is really a development budget, including current expenditure elements) is taken from line ministry proposals and PIP, adjusted downwards taking into account disbursement rates in recent years (as project implementation is invariably slower than planned). The DIC is in formal control (including of procurement) of externally-financed investment projects that use project accounts in National Bank of Cambodia (NBC), mainly loan-financed ADB and World Bank projects; in practice, PIUs located in DIC manage the projects. DIC also monitors disbursement and expenditure under projects (mainly grant-financed) directly under the control of line ministries through Project Management Units in these ministries. The flow of information, though, is not as smooth as for the projects under the control of DIC.

DIC manages the domestically-funded investment budget, which comprises one quarter of total capital expenditure.

2.3.5 Procurement

The Law on Procurement was passed by the National Assembly on 14 January 2012. Previously, public procurement had been governed by a fragmented legal framework spread out over several prakas, sub-decrees and internal guidelines. The new law is more comprehensive and applies to all procurement from government funds, but does not cover some aspects of modern procurement legislation such as procurement planning, implementation monitoring, procurement methods, and independent mechanism for settling procurement complaints.[4] It is not clear whether some of the old law still applies, such as the sub-decree and prakas 319 of 1995 and the Implementing Rules and Regulations Governing Public Procurement (IRRPP), also called Procurement Manual, issued in 2010. The assessment team was informed that, since the promulgation of the new law, a sub-decree and five prakas are under discussion.

MEF General Department of Public Procurement is in charge of national procurement, which is decentralized to procuring entities.Procurement for externally financed projects/programs is governed by the regulations of the respective development partners. Procurement manuals for donor projects were published in September 2005. DIC in MEF is in charge of such procurement.

2.3.6 Budget execution, cash and debt management, reporting and accounting

Line ministries need to request approval by their Financial Controllers posted from the Financial Affairs Department (FAD) in MEF (and Department for Investment and Cooperation (DIC) for domestically financed investment expenditure) of spending commitment proposals. Once granted (based on compliance with the approved budget), line ministries can go through the commitment and procurement process (above a threshold, noted under PI-19, the procurement is controlled by GDPP). Once goods and services have been received and verified, line ministries prepare payment order requests, which they submit to FAD/DIC along with supporting documents. After processing, FAD/DIC then submits stamped payment orders to GDNT for actual payment to suppliers.

At provincial level, the director of the provincial expenditure and finance department acts as the financial controller there, the provincial governor signing off on payment order requests prior to their submission to provincial treasuries (which perform the same function as the GDNT at central government level).

Salaries are paid by direct deposits into bank accounts of civil servants. Revenues are mainly paid directly into the Treasury Single Account, established in 2003.

Unconnected manual and semi-manual processes and software systems are still largely used in the budget execution, reporting and accounting processes. Even within MEF itself, each department tends to use its own system with no electronic connection to other systems. The GDNT has a computerized system (the Khmer Information Technology or KIT system), but it appears that this has problems and manual processes still have to be used – see further under PI-4 dim(ii) in Section 3. GDNT has no electronic linkage with other departments in MEF (critically, Budget Department, FAD, DIC and Cash Management Unit) nor with line ministries. An integrated FMIS system has been designed and is being rolled out to all LMs initially. This will be interfaced with other systems.

2.3.7 Internal and external audit

The internal audit function is governed by the Audit Law, promulgated under Decree CS/RKM/0300/10, March 2000, together with sub-decree 40 (February 2005) on the Organization and Functioning of Internal Audit in Ministries, Institutions and PEs. The purpose of the Law was to establish internal audit within each institution, ministry and PE.

On the basis of sub-decree 40, MEF in consultation with NAA issued prakas 405 (May 2006) on "Internal Audit Standards for Professional Practice for Internal Audit" and "Code of Ethics" (on MEF's

4 There is no published English translation of the Law. An informal translation was made by the World Bank Country Office.

website), and prakas 1109 (November 2006) on "Internal control policy statement".

NAA was established also under the Audit Law of 2000, as amended in November 2000 (Decree NS/rkm/1100/11) and in August 2006 (Decree NS/rkm/0806/024). The NAA has its own separate budget funded by the national budget and is subject to the public finance regulations (Article 17), but is answerable to the National Assembly, Senate and the Royal Government (Article 14). Its reports are deemed to be public documents (Article 29), unless publication is deemed contrary to the public interest (Article 37). The Auditor-General has rank and privileges equivalent to a Senior Minister and the Deputy Auditor-General has rank and privileges equivalent to a Minister. The Auditor-General and the Deputy Auditor-Generals are appointed by royal decree on the recommendation of the Royal Government and approved by a two-thirds majority of all members of the National Assembly (Article 18). The Auditor-General has the authority to determine the salaries of NAA audit staff.

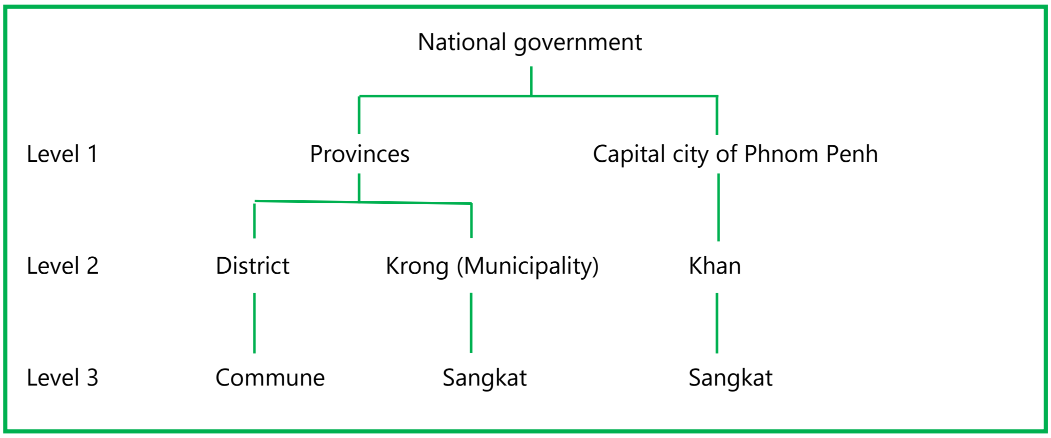
Under Article 2, NAA has a mandate to audit all government institutions, including local level governments, and other entities, including PEs, receiving concessions, benefits or interests from the Government.

2.3.8 Sub-National Governments

The sub-national administration consist of three levels, level 1 comprising the provincial administrations and the capital city, level 2 the municipal and district administrations and level 3 the communes and sangkats (see Diagram 2.1). The capital city is subdivided into Khans, which do not have separate administrations. In 2014 SNA comprised one capital city, 25 provinces,185 municipalities/districts, 1633 communes/sangkats. A total of 14,139 villages fall under the communes and sangkats but they do not have separate administration. The SNA structure is illustrated in diagram 2.3 below.

Levels 1 and 2 of SNA are controlled by the central government through appointed boards of governors, even if level 2 also have councils with indirectly elected councilors (elected by commune/sangkat councils). Level 2 was introduced in 2012 and its administration is still under development. The provincial governor's office, in charge of administration in the province, is effectively representing the Ministry of Interior in the provinces. Communes and sangkats are governed by directly elected councilors (elections every 5 years).

Diagram 2.1 Structure of Cambodia's Sub-National Administration



Budgeting arrangements for SNA levels 1 and 2 entities are prepared, approved and executed along the same rules and regulations as LM budgets. Whilst heavily dependent on central government for financing, the commune and sangkat councils prepare their budgets independently (since 2002) and do not require prior approval by RGC. During budget execution, however, payments of commune/sangkat expenditure are undertaken through the General Department of National Treasury of MEF (GDNT).

Budget allocations to districts and municipalities in 2014 amounted to KHR 68 billion i.e. 0.8% of budgeted recurrent revenue. Transfers to communes/sangkats in 2014 amounted to KHR 237 billion i.e. 2.8% of budgeted recurrent revenue allocated to the Commune/Sangkat Fund, of which KHR 105 billion for administrative component and KHR 132 billion development component, which enables them to implement their local development priorities through their respective budgets.

To promote the implementation of its Decentralization and Deconcentration Reform Program, a new Law on Administrative Management of the Capital, Province, Municipality, District and Khan (2008) was approved. Elections at the sub-national tiers were held in 2009, and a National Program on Sub-National Democratic Development was established in 2010. Implementation commenced in 2011.

Major achievements in implementing the new law include establishment of sub-national administrative structures and integration of nearly 10,000 civil servants into the new structures. Two legal instruments have been developed to permit the delegation of powers to SNAs for the management, appointment, movement and termination of civil servants. Moreover, a new District/Municipality (DM) Fund was created to receive an annual transfer of 0.8% of the national recurrent revenues as from 2014.

3. Assessment of PFM Systems, Processes and Institutions

3.1 Budget credibility

PI-1 Aggregate expenditure out-turn compared to original approved budget

(i) The difference between actual primary and the originally budgeted primary expenditure

The extent to which government implements budgeted expenditure is key to its ability to deliver public services for the year, as expressed in policy statements, output commitments and work plans. The indicator measures actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports), but excludes two expenditure categories over which the government has little control: debt service payments; and donor-funded project expenditure. Aggregate expenditure includes current and capital expenditure of central government ministries and agencies, provincial government line departments and the offices of provincial governors.

Table 3.1 shows the original budgets, as approved by the National Assembly compared to the actual outturns for 2011-2013. A recent evaluation of government's budget credibility indicated that stability had still not been attained, and further work was needed in the areas of procurement and expenditure management.[5] Nevertheless, there is a marked improvement from the 2010 PEFA report when in one year (2008), actual expenditure deviated from budget by 12.2%. It is also noteworthy that in 2013, in spite of an increase in the minimum wage for civil servants, domestically funded expenditure remained within the budget envelope. However, there was concern that further increases in the wage bill in 2014, would cost ½ percent of GDP, bringing the wage bill up to 5½ percent of GDP.[6]

Table 3.1: Aggregate expenditure outturn and approved budget[7]

Millions of KHR	2011		2012		2013	
	Budget	Outturn	Budget	Outturn	Budget	Outturn
Current expenditure	5,801,808	6,148,374	6,673,469	7,127,565	7,615,387	7,438,440
Capital expenditure	1,805,427	1,616,302	1,662,343	1,525,189	1,853,907	1,633,770
Total expenditure	7,607,235	7,764,676	8,335,812	8,652,754	9,469,294	9,072,210
Minus interest payment	140,000	139,650	171,000	305,117	256,000	439,298
Minus principal repayment	180,000	163,698	250,000	190,238	280,000	242,256
Total primary expenditure	7,287,235	7,461,328	7,914,812	8,157,399	8,933,294	8,390,656
Deviation	2.4%		3.1%		-6.1%	

Sources: General Department of Budget (GDB) and General Department of National Treasury (GDNT)

5 MEF/GSC (2014) *Report on the Review Outcomes of the Implementation of Public Financial Management Reform Program*.
6 IMF (2014) *Cambodia: 2013 Article IV Consultation*. IMF Country Report No. 14/33.
7 The amounts presented in the table exclude externally financed project expenditure. Actual externally financed project expenditure amounted to KHR 3,402,704 million, KHR 4,027,487 million and KHR 4,306,084 million in 2011, 2012 and 2013 respectively.

On the basis of the data shown above, the score of indicator PI-1 is set out in the scoring table below[8].

The indicator is scored A, because the deviation was higher than 5% in only one of the last three years.

Table 3.2: Score for PI-1

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	**B**	**A**	The deviations in absolute terms were 2.4%, 3.1% and 6.1% in 2011, 2012 and 2013 respectively i.e. below 5% in two of the three years.

PI-2 Composition of expenditure out-turn compared to original approved budget

This indicator compares primary expenditure, budgeted and actual, at a sub-aggregate level across the main administrative headings. The first dimension measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition without taking the contingency vote into consideration. The use of a contingency vote is considered in the second dimension. The assessment is made for the central government and is based on the last three completed fiscal years for which data are available.

(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items

Where the composition of expenditure varies considerably from the original approved budget, the budget may not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure outturns against the original budget at a sub-aggregate level. The PI-2 indicator compares actual and budgeted expenditure for the largest administrative budget heads. The composition of budgeted and reported expenditure by administrative agency is set out in Table 3.3.

The table suggests that the budget is not a good predictor of outcomes. Overall the variance in expenditure composition between actual and budget ranged between 25% and 38% in 2011, 2012 and 2013[9]. For the three years, budget heads such as rural development, economy and finance and earmarked reserves reported average deviations from budget of as high as 195%, 57% and 56% respectively. During each year, the rural development budget head received additional funding from RGC's reserve, for maintenance and capital expenditure, which it spent directly – this explains the high variances reported in each year. GDB also indicated that it spent funds in the earmarked reserve on behalf of other ministries, and charged expenditure to the reserve account. RGC actually spent less than budget in 2011, 2012 and 2013 on the earmarked reserve head as certain amounts slated for use by communes and emergencies were not spent.

[8] Preliminary data for 2014 suggests an overall deviation between actual and budgeted expenditure of 6.8%.

[9] Preliminary data for 2014 suggests a compositional variance of 17.6%

Table 3.3: Percentage variance in budgeted and actual expenditure by budget head

Budget head	Variance		
	2011	**2012**	**2013**
Education, Youth and Sport	12.1%	9.6%	7.3%
National Defence	1.4%	3.7%	3.3%
Public Health	2.7%	1.6%	1.0%
Interior – Security	0.3%	5.0%	3.3%
Social Affairs and Veteran	8.7%	2.2%	4.8%
Council of Ministers	112.2%	11.5%	11.4%
National Assembly	1.1%	0.1%	2.9%
Agriculture, Forestry and Fishery	1.5%	9.8%	29.3%
Economy and Finance	134.9%	24.8%	12.6%
Rural Development	206.5%	154.0%	224.3%
Labour and Vocational Training	20.9%	6.6%	10.7%
Foreign Affairs and Int'l Cooperation	6.6%	2.8%	3.0%
Urbanisation and Construction	5.4%	24.9%	30.9%
Interior Administration	39.2%	-	-
National Election Committee	-	2.94%	15.4%
Reserve earmarked	54.7%	39.6%	72.2%
Provincial	31.5%	34.0%	16.2%
Other 23 Ministries	110.1%	87.2%	66.2%
Total expenditure allocated (Variance PI-2)	37.9%	25.4%	30.4%

Sources: GDB and GDNT

In calculating the PI-2 (i) score, actual earmarked[10] reserve expenditure is compared against budgeted earmarked reserve expenditure. A non-earmarked reserve constitutes unforeseen expenditure. This item is not included in the computation above. The non-earmarked portion of the reserve is assessed in the next dimension as a contingency. Details of the calculation are shown for each year in Annex 5.3.

This dimension was scored D because variance in expenditure composition exceeded 15% all of the last three fiscal years.

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

Table 3.4 sets out the percentage of actual expenditure for the three years to 2013 charged to the budgeted un-earmarked reserve (or the contingency heading), which constitutes one line in the budget. On average, actual expenditure charged to the budgeted un-earmarked reserve as a percentage was 5.3%[11].

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10 A portion of expenditure is presented as "earmarked" expenditure, which is known by recipients at the start of the year. Earmarked items include theRoads Maintenance Fund (MEF transfers funds to the Ministry of Public Works and Transport), VAT refunds, National Election Commission expenses, troop demobilisation expenses, and a fuel price-based subsidy for the Electricity Company of Cambodia.

11 Preliminary data for 2014 suggests that actual expenditure charged to the reserve was 6.9%

Table 3.4: Percentage of actual expenditure charged to the budgeted contingency vote

Budget head	2011	2012	2013
Un-earmarked reserve	5.0%	5.8%	5.1%
Average for the three years	5.3%		

Source: GDB and GDNT

This dimension was scored B because – on average - actual expenditure charged to contingency vote was higher than 3% but below 6% in the last three fiscal years.

Table 3.5: Scores for PI-2

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-2	**Composition of expenditure out-turn compared to original approved budget**	**D**	**D+**	Scoring Method M1
(i)	Variance in expenditure composition excluding contingency items	D	D	At 37.9%, 25.4% and 30.4% respectively in 2011, 2012 and 2013, the variance in expenditure composition exceeded 15% in all three years
(ii)	Average amount of expenditure actually charged to the contingency vote	-	B	Actual average expenditure charged to the contingency vote averaged 5.3% for 2011, 2012 and 2013

Box 3.1: Ongoing Reform Activities

To promote transparency, RGC is working towards reducing the amounts allocated to un-earmarked and earmarked reserves. In its 2016 budget, RGC will reflect the full budgets of the five priority ministries, namely: education; public works, rural development; water; and health. In other words, there will be no amounts allocated to reserves for the five ministries.

PI-3 Aggregate revenue out-turn compared to original approved budget

This indicator compares actual total domestic revenue to the originally budgeted domestic revenue for the last three fiscal yearscompleted[12].

The General Department of Economic and Public Finance Policy (GDEPFP) of MEF forecasts revenue in consultation with the General Department of Taxation (GDT) and General Department of Customs and Excise (GDCE). A Macroeconomic and Fiscal Unit within GDEPFP was established in 2012. The unit ascertains from GDT and GDCE, how much revenue they expect to collect as well as future economic and other trends. The unit uses a model to generate: baseline scenarios based on historical data; alternative (low and high case) scenarios based on trends/ add on factors. Baseline and alternative scenarios focus on 16 major tax types. MEF's management may ask the Macroeconomic and Fiscal Unit to adjust scenarios.

12 The PEFA methodology was modified in 2011to reflect the fact that under-realization of revenue has more serious consequences than over-realization.

Table 3.6 presents the aggregate revenue outturn compared to the original approved budget for 2011, 2012 and 2013. On average, for the three years, tax revenues contributed 83% of total domestic revenues. Trade taxes contributed the highest share of revenues – an average of 43.5% of total domestic revenues for the three years. Overall favorable variances from budget ranged from a low of 0.6% in 2011 to a high of 12% in 2012[13], when GDP growth of 7.3 percent was higher than the expected 6.5 percent.[14] Furthermore, in 2012, the higher outturn was also attributed to increased audit effectiveness following the recruitment of 200 tax auditors.[15]

Other than in 2011 when levels remained flat, domestic revenue has grown steadily since 2009. Specifically, domestic revenue rose from 11.5% of GDP in 2009 to around 14% of GDP in 2013. However, there is still scope to increase domestic revenue to be in line with the levels recorded in similar economies. To this end, GDT and GDCE have been implementing a medium-term Revenue Mobilization Strategy (2014-2018) and Strategy and Work Programs on the Reform and Modernization of Customs and Excise (2014-2018) respectively. It is anticipated that reforms will contribute to about half of a percentage point growth per annum in the medium term.

13 Preliminary actual revenue reported for 2014 is KHR 11,658 billion, which is 110.9% of budgeted domestic revenue. Using the period 2012-2014 as the basis would change the score to a B as outturns for two of the last three years would exceed 106%.

14 GDP percentages from IMF staff reports of 2013 and 2014.

15 IMF (2013) *Cambodia: 2012 Article IV Consultation*. IMF Country Report No. 13/2.

Table 3.6: Revenue performance 2011-2013

KHR billions	2011			2012			2013		
	Budget	Outturn	Variance	Budget	Outturn	Variance	Budget	Outturn	Variance
Revenue collected by GDCE	2,892	3,132	8.3%	3,441	3,662	6.4%	4,065	3,956	-2.7%
Import duties	1,107	1,008	-8.9%	1,157	1,153	-0.3%	1,334	1,262	-5.4%
Export duties	12	74	523.6%	67	54	-19.9%	73	91	24.7%
Specific tax on some materials	771	790	2.5%	875	958	9.4%	1,066	983	-7.8%
Value Added Tax (VAT) (imports)	985	1,250	26.8%	1,325	1,487	12.3%	1,572	1,606	2.2%
Other taxes	17	10	-40.8%	18	11	-38.3%	20	13	-34.5%
Revenue collected by GDT	2,414	1,973	-18.3%	2,632	2,569	-2.4%	3,053	3,102	1.6%
Profit tax	740	716	-3.3%	958	967	0.9%	1,193	1,167	-2.1%
Salary tax	236	185	-21.7%	241	234	-3.0%	282	301	6.7%
Land and housing tax	68	59	-12.8%	79	75	-5.1%	88	94	6.4%
Turnover tax	44	23	-48.4%	30	24	-18.7%	32	26	-19.0%
Specific tax on some materials (domestic)	318	304	-4.6%	345	360	4.3%	421	417	-1.0%
VAT (internal regime)	993	671	-32.4%	962	889	-7.5%	1,018	1,073	5.4%
Other taxes	15	16	6.8%	17	19	11.9%	19	24	28.9%
Other tax revenues	171	200	17.1%	207	212	2.4%	204	232	13.8%
Provincial revenues	262	411	56.7%	332	493	48.3%	432	525	21.6%
Non tax revenue (including capital revenues)	1,080	1,142	5.7%	1,100	1,700	54.5%	1,235	1,485	20.3%
Total revenue	6,819	6,857	0.6%	7,713	8,636	12.0%	8,988	9,299	3.5%
Outturn as a percentage of budgeted revenue	100.6			112.0			103.5		

Sources: GDEPFP and GDNT

On the basis of the results above, the score for indicator PI-3 is set out in the table below. The indicator was scored A, because outturns were within the 97% to 106% range for two of the last three fiscal years.

Table 3.7: Score for PI-3

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-3	**Actual domestic revenue compared to originally approved budget**	**A**	**A**	Actual domestic revenue was 100.6% and 103.5% of budget in 2011 and 2013 respectively – in other words outturns are within the 97% to 106% range for two of the three years

Box 3.2: Ongoing Reform Activities

GDCE's medium-term strategy (2014 - 2018) contains six strategic objectives. Objectives cover the following key result areas: revenue mobilization; compliance and enforcement; trade facilitation; modernization/ automation of customs procedures; governance and human resource management; and the customs reform and modernization program.

The ongoing Revenue Mobilization Strategy (2014 - 2018) being implemented by GDT seeks to: strengthen revenue administration, promote voluntary compliance, widen the tax base, improve taxpayer services, enhance the business environment and promote equity and fairness.

PI-4 Stock and monitoring of expenditure payment arrears

Expenditure payment arrears are expenditure obligations that have been incurred by the government, for which payment to employees, suppliers, contractors or loan creditors is overdue i.e. it has not been made within the payment delay specified in the respective contract or other relevant legal provision. This indicator measures the extent to which there is a stock of expenditure arrears, and the extent to which a systemic problem is being brought under control and addressed. The assessment of the first dimension is as of the end of last FY for which data are availablei.e. 2013. The assessment of the second dimension is as of the end of last two FYsfor which data are available, i.e. 2012 and 2013.

(i) Stock of expenditure payment arrears

Public expenditure is managed according to the Law on the Public Financial System 2008, Articles 24, 50 and 64, and promulgated by sub-decree no. 81 A.N.KR.B.K on the establishment of financial control. LM ministers and equivalent public entity heads, as first managers of their budgets, are responsible for authorizing expenditure.

After the budget credit has been approved by the annual financial law, and detailed allocations prepared by MEF, expenditure units under LMs and public entities prepare their budget proposals and are guided by the budget allocation book. The implementation of appropriated budgets goes through the following four phases: commitment; delivery/receipt of goods, services, repairs or construction; clearance (request for payment, and approval of payment order); and payment execution.

In general, proposals for the approval of commitments are initiated by expenditure units under LMs and equivalent public entities (see also under PI-20 (i)). Financial controllers appointed by prakas issued by MEF are tasked to oversee the expenditure budget (from commitments to payment orders) and make sure that the expenditures meet legal requirements – i.e. credit is within the limit approved by law and in compliance with the existing financial procedures - and technical requirements – i.e. resources are used effectively and efficiently, and commitments and payments are thoroughly checked to avoid loss, damages, wastefulness, and/or wrong recording.

Spending departments submit payment orders for current expenditure to LM Financial Controllers, who are part of MEFs FAD, decentralized to the LMs. Payment orders for capital expenditure are channeled through MEF's DIC, for final approval. The two departments within MEF send payment orders to GDNT who in turn is responsible for payment execution. GDNT settles payment orders if they are supported with sufficient supporting documents and approvals. When payment orders are received and paid, they GDNT stamps them with incoming and payment dates.

The RGC currently considers arrears as payment orders that are outstanding for more than 90 days after receipt by GDNT. Recently, the target has been reduced to 60 days. Whether 90 days or 60, this is very different from the internationally accepted definition of arrears, which is amounts unpaid more than 30 days *from the date the invoice is received and registered in the responsible LM*. It is also different from the standard terms of payment of Cambodian contracts given to suppliers, etc, which are typically 30 days or 45 days after invoice. There is commonly a long and cumbersome process within the LM *before* the payment order is approved and sent to the GDNT. The assessment team was told that suppliers and contractors normally have to wait six months from submitting invoices to actual receipt of payments in their bank accounts, even when the documentation is complete. This appears to be due to a cumbersome payment process rather than cash shortages.

Table 3.8 presents estimates of expenditure payment arrears for each of the main expenditure groups (a) goods and services, (b) staff salaries and (c) debt service. Arrears on payments for goods and services are approximated by the volume of unpaid payment orders at the year-end. The assessment of the stock of arrears is based on payment orders outstanding for more than 60 days, in line with a PFM target set on 20 May 2015 and closer to the contractual obligations of 30/45 days than the previous 90 day target.

Salaries are due by the end of each month. If not paid then, they are immediately in arrears. Data available on salary arrears arising from delays in putting new civil servants on the payroll and effecting salary increments, suggests that the amounts are substantial – as at 31 December 2014, KHR 157.0 billion of salaries remained unpaid.[16] At 31 December 2013, salary arrears were KHR 272.4 billion.

It is estimated that debt interest and penalties arising from loans to the old regime from the Russian Federation and United States of America, could be as much as US$ 280 million (KHR 1,143 billion). This debt is under negotiation and both principal and interest are expected to be written off, but at present, the interest and penalties component is still part of expenditure arrears.

Table 3.8 show total estimated expenditure arrears for the last three years for which data was available – 2011, 2012 and 2013 - to be in the order of 21-23% of total expenditure with only minor changes from one year to the next. Arrears on debt service constitute the largest of the three expenditure groups in all three years.

[16] Data from GSC 25 August 2015

This dimension is scored D because the total stock of payment arrears exceeds 10% of total expenditure.

Table 3.8: Analysis of expenditure payment arrears

	2011	2012	2013
Total expenditure (KHR billions)	7,461	8,157	8,390
Stock of payment ordersover 60 days at year end, Salaries unpaid at end of year Debt service arrears	321 249 1,143	494 272 1,143	471 157 1,143
Total expenditure arrears (KHR billion)	1,713	1,909	1,771
As a % of total expenditure	23.0%	23.4%	21.1%
% change		+11%	-7%

Source: GDNT; excludes externally financed project expenditure.

(ii) Availability of data for monitoring the stock of expenditure payment arrears

As of 2011, GDNT has used the KIT system which allows it to know the quantity and value of all outstanding payment orders, and how many days they have been pending. The KIT system enables GDNT to disaggregate outstanding payment orders by supplier. It also keeps a record of dates GDNT received and paid payment orders. KIT is not used to generate routine reports. However, data maintained on the system can be extracted to Excel to generate reports. However, no system is in place to track delay from submission of suppliers/contractors' invoices until the date the payment order is issued and forwarded to GDNT. Data on salary arrears are collected on a monthly basis.

This dimension is rated C because there are systems in place to estimate expenditure payment arrears for each of the major expenditure groups, but the systems are incomplete and do not produce routine reports for continuous monitoring.

Table 3.9: Scores for PI-4

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-4	**Stock and monitoring of expenditure payment arrears**	**C+**	**D+**	Scoring Method M1
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	A	D	Estimates of amounts outstanding for more than 60 days on payment orders for goods and services as well as salary arrears, and arrears on debt interest and penalties implies that overall the stock of arrears is greater than 10% of total expenditure. The estimate is likely to further increase if data was available on invoices for which payment orders have not yet been issued.
(ii)	Availability of data for monitoring the stock payment arrears	C	C	Although data maintained on the system can be extracted to Excel to generate reports, and was used to provide data for PEFA 2015, annual reporting is not a routine function and the systems are incomplete.

Box 3.3: Ongoing Reform Activities

The KIT system is to be used for the short-term. It will be replaced by the FMIS which is expected to track purchases from the point of LMs making commitments to the time when suppliers are paid. In other words if well-functioning, the FMIS should maintain a record of details of each commitment, purchase order, invoice, payment order and payment – including the date of the transaction, its reference number and amount. The payroll and debt management modules of the FMIS post outstanding payments to creditor accounts, making it easier for them to be tracked. The FMIS should also be able to easily generate reports on outstanding debts and arrears on a periodic (weekly, monthly, quarterly and annual) basis.

3.2 Comprehensiveness and transparency

PI-5 Classification of the budget

This indicator assesses whether the budget classification and the chart of accounts are directly aligned so that, government accounts, budget execution reports and other budget execution data can be produced with a break-down that corresponds to the documentation for the proposed and approved budget. The assessment is based on the last completed fiscal year i.e. FY2014.

Budget formulation and implementation is based on administrative, economic, and functional classifications. Administrative classification is used by LMs, general departments, and relevant entities at central and sub-national levels.

The economic classification is used in formulation and implementation of revenues and expenditures and is divided into four levels, namely account and sub-account chapters as well as groups and types. The CoA from 2007 was updated and revised in accordance with international standards in 2013. It can produce statistics largely consistent with GFS 2001 as evidenced by reporting monthly data to the GFS system since 2011. For this purpose a CoA-TOFE-GFS 2001 bridge table is being used. For a few minor revenue items the CoA is not sufficiently detailed and consequently data is attributed to the GFS code for which most of the revenue is related. Moreover, some expenditure codes at the item level are different for state, provinces, districts and communes (each level using a slightly different CoA) which require manual adjustment for consolidated reporting on detailed items.

Functional classification is used to illustrate the purpose of the expenditures by sector or sub-sector and has two levels: function and sub-function. The functional classification is based on only four sectors (main functions) including'general public service', 'national defence', 'public security', and 'economy', and is not reflected in the chart of accounts. Therefore, implementation of the functional classification has not been comprehensive and compliant to the international standards, such as the ten main functions under COFOG.

Program budgeting has been introduced on a pilot basis, covering eight LMs in 2014. Program classification is used for budget classification purposes only and does not form part of the chart of accounts. Moreover, program budgeting covers only non-salary expenditure and does not cover all activities and expenditure of the eight pilot LMs. An overview of the classification systems used is provided in Table 3.10.

Table 3.10: Overview of the classification of the 2014 Budget

Categories	FY 2014		Remarks
	Budget formulation	Budget reporting	
Administrative	yes	yes	37 votes for central government budget entities 24 votes for Provinces and Capital City
Economic	yes	yes	Coding structure is largely consistent with GFS and produces GFS compliant information by means of a bridge table.
Functional	(yes)	no	Only using 4 sectors/functions i.e. not COFOG compliant.
Program	(yes)	no	Program classification used partially for 8 pilot ministries only.

The indicator is scored C becausethe both budgeting and accounting were based on administrative and economic classification, the latter consistent with GFS standards. A higher score would require that the classification includes a functional element consistent with COFOG.

Table 3.11: Score for PI-5

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-5	**Classification of the budget**	**C**	**C**	The classification used for budgeting and accounting purposes in FY2014 was limited to administrative and economic classification.

Box 3.4: Ongoing Reform Activities

A new and unified chart of accounts has been developed and is being introduced during 2015 in order to be functioning for both budgeting and accounting purposes as from FY2016. It includes seven segments (geographical location, function, administration/operational unit, economic object, source of funds, program and project) with a total of 42 digits. It will be used across state, provincial, district and communes to allow consolidation of information at all levels, including reporting on functional categories to the GFS system.

PI-6 Comprehensiveness of information included in budget documentation

This indicator assess the extent to which annual budget documentation as submitted to the legislature for scrutiny and approval allows a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. The assessment is based on the last budget presented to the legislature i.e. for fiscal year 2015. Table 3.12 summarizes the main elements of the budget and their availability in the budget information.

The budget law consists of five volumes; separate chapters for (1) law and regulation (2) national budget, ministries and institutions (3) capital city and provincial technical departments (4) sub-national administration (provinces) (5) municipalities, districts and khan (6) commune and sangkat fund.

Table 3.12: Presentation of key information in budget documentation for 2015

No.	Budget documentation benchmarks	Criterion met	Explanation
1.	*Macro-economic assumptions*, including estimates of aggregate growth, inflation and exchange rate	Yes	All three macro-economic assumptions are presented in the budget submission.
2.	*Fiscal deficit*, defined according to GFS or other internationally recognized standard	No	Fiscal deficit was presented, but notin a format consistent with GFS.
3.	*Deficit financing*, describing anticipated composition	Yes	Details of budget deficit financing are provided, with breakdown into domestic (though type of instrument not specified) and foreign financing (the latter divided into general budget finance, investment project finance and debt amortization).
4.	*Debt stock*, incl. details at least for the beginning of the current year	No	No aggregates or details are provided
5.	*Financial assets*, incl. details at least for the beginning of the current year	No	No aggregates or details provided
6.	*Prior year's budget out-turn*, presented in the same format as the budget proposal	No	Prior year's budget outturn was presented in the same format as the budget proposal only for revenue (detailed breakdown) whereas expenditure comparison s shown only in summary tables.
7.	*Current year's budget* (revised budget or estimated out-turn), presented in the same format as the budget proposal	No	Current year's budget was presented in the same format as the budget proposal only for revenue (detailed breakdown) whereas expenditure comparison s shown only in summary tables.
8.	*Summarized budget data for both revenue and expenditure* according to the main heads of the classification used, incl. data for current & previous year	Yes	Summarized budget data for both revenue and expenditure was made in accordance with administrative, economic and functional classifications.
9.	*Explanation of budget implications of new policy initiatives*, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	Changes in revenue and expenditure policies are explained. The budgetary implications of policy changes are incorporated in the budget estimates but not explained for each policy change separately.

The indicator is scored C because three of the information benchmarks are met. A higher score would require that at least five of the information benchmarks be met.

Table 3.13: Score for PI-6

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-6	**Comprehensiveness of information included in budget documentation**	**B**	**C**	Three of the nine key elements of budget documentation (#1, 3, 8) were presented in the budget submission for 2015.

Box 3.5: Ongoing Reform Activities

None reported

PI-7 Extent of unreported government operations

This indicator assesses the extent of unreported government operations against two dimensions: (i) unreported extra-budgetary expenditure; and (ii) income/expenditure information on externally financed projects included in the government's key fiscal reporting. The indicator assesses the level of unreported operations at the central government level as defined by IMF GFS[17]. Departmental non-tax revenues fall under the scope of this indicator and include such revenues as user fees and charges, fines and rent of property etc. For the purpose of the calibration, expenditure should be captured both ex-ante (budget estimates) and ex-post (actual expenditure) in the key fiscal reports (i.e. annual budget estimates, in year budget execution reports, annual financial statements), either by consolidation with other central government expenditure, or shown in a separate document presented to the legislature in order to be counted as "reported". The assessment covers the *last completed fiscal year*.

(i) The level of unreported extra-budgetary expenditure

Some LMs collect non-tax revenues created by various prakas. Non–tax revenues include fees for tuition, medical services, aviation service, tourism, telecommunication, TV and radio licenses, visas, as well as dividends, concessions and fines/penalties. In addition, PAEs collect non-tax revenue in terms of tuition fees, hospital and medical service fees. Dividends from PEs are determined on the basis of profits reported in the annual reports from the respective PEs and are to be paid within nine months from end of the fiscal year; the dividend is recorded as revenue of the supervising ministry. Altogether the reported amount of non-tax revenue collection for 2013 was KHR 1416 billion corresponding to about 12% of total RGC expenditure.

Generally, these revenues were paid directly to GDNT and included in the fiscal report, but there are exceptions. The General Inspectorate Department of MEF and LM internal audit units are responsible for inclusion of non-tax revenue. The MEF General Department of State Property and Non-Tax Revenue (GDSPNTR) has no authority to collect such revenues and is not responsible for inclusion of these revenues in the TSA but receives information on revenue deposits based on the report issued by GDNT.

[17] In GFS terminology, central government comprises all unit at central level carrying out government policies including not only LMs, but also non-market non-profit institutions that are controlled by and mainly financed by government(statutory funds, trust funds, special funds, social security funds and other autonomous agencies but excludes local authorities and public business enterprises).

It was reported by the Ministry of Education, Youth and Sport (MEYS) that government schools collect a wide range of non-standardized revenues based on local school board decisions (including canteen operations, renting out land etc.) and that such revenue is practically never reported to the ministry. The amount concerned is considered to be larger than the transfers of cash to the schools from the national budget i.e. larger than the approximately KHR 11 billion or about 1% of total RGC expenditure. The Ministry of Health (MOH) monitors service fees collected by government hospitals (excluding PAEs), health clinics and health post which are reported to ministry headquarters and included in budget estimates. Regulations provide that user fees have to be determined for each facility in consultation with community and local authorities. An inter-ministerial prakas mandates that user fees must be spent as follows: 60 percent for staff incentives, 39 percent for non-wage operating costs, and 1 percent for the Treasury Single Account (TSA).

Public administrative entities keep most of their extra-budgetary revenues and use them for recurrent and investment expenditures. However, income/expenditures were reported to the central administrationfor most PAEs (ref. PI-9(i)), although no clear standard was used to report and record such operations.PAEs' own revenue is neither included in the budget estimates, nor in the budget execution reports. The amount concerned in 2013 was in the order of KHR 144 billion (ref. Annex 5.1) corresponding to 1.2% of total RGC expenditure, but this includes only 16 of the 26 listed PAEs of which one institution has been identified as missing in GDSPNTR's list of PAEs. In addition, PAEs received KHR 206 billion in subsidy in 2013 from the RGC budget (1.7% of total RGC expenditure), from which the actual expenditure is also not reported in the budget execution reports. If it is assumed that the non-reporting PAEs have own revenue and expenditure of the same magnitude per PAE in average, this adds up to about 4% of total RGC expenditure.

Altogether this means that there is strong indication that unreported extra-budgetary expenditure amounted to at least 5% of total RGC expenditure, an estimate that excludes information from many other LMs that collect non-tax revenue directly or through its agencies. If it is assumed that institutions under LMs other than MEYS and MOH have unreported revenues of the same proportion – and that MEYS and MOH institutions account for just under a quarter of all RGC expenditure, the estimate of unreported operations of this nature would come to 4-5% of total expenditure. When added to unreported PAE expenditure, therefore, the overall estimate of unreported operations comes to some 8-9% of total expenditure. Even if allowing for substantial uncertainty on the estimates, it is highly likely that unreported extra-budgetary expenditure exceeds 5% of total RGC expenditure, but does not exceed 10%.

This dimension is scored C because the estimated magnitude of unreported extra-budgetary expenditure is between 5% and 10% of total expenditure, excluding externally financed projects.

ii) Income/expenditure information on donor-funded projects

Full documentation on annual budget showed expenditure estimates for development partner projects by LMs, based on the PIP. This ex-ante data is largely complete even if it is suggested that the PIP is missing data for some grant financed projects, ref. section 3.7 below. Data on actual expenditure implemented (i.e. ex-post reporting) is incomplete. Actual project expenditure is covered in budget execution reports and in end-year financial reports only as one aggregate number.Whilst loans and donor disbursement through the GDNT were recorded, there was no accurate data for project expenditure financed from grants, whether through direct donor disbursement or from development partner accounts in the NBC and commercial banks. Information from MEF/GDB and CDC was inconsistent, but suggested that ex-post data on project expenditure is covered for well below 50% of projects.

This dimension is scored C because all externally financed project expenditure through loans is reflected in key fiscal reports both ex-ante and ex-post. It is not scored higher because ex-post expenditure on grant financed projects covers less than 50% of projects.

Table 3.14: Scores for PI-7

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-7	**Extent of unreported government operations**	**C**	**C**	**Scoring Method M1**
(i)	Level of unreported extra-budgetary expenditure	C	C	Based on a sample of departments, estimates of collection of non-tax revenue suggest that the level of unreported extra-budgetary expenditure constitutes more than 5% but less than 10% of total RGC expenditure.
(ii)	Income/expenditure information on donor-funded projects	C	C	All externally financed project budgets (ex-ante) are captured in budget documentation based on the PIP. Actual project expenditure (ex-post) is covered in budget execution reports and in end-year financial reportsbut is complete only for loan financed projects. It is not possible to estimate precisely the proportion of grant-financed projects that is captured in execution and end-year reports but it is likely to be well below 50%.

Box 3.6: Ongoing Reform Activities

The Revenue Mobilization Strategy 2014-2018 includes a set of actions focused on strengthening non-tax revenue administration, including improvements to monitoring, recording and mobilization of non-tax revenue.

PI-8 Transparency of inter-governmental fiscal relations

This indicator assesses the transparency of transfers from central government to sub-national governments and accountability for the use of these funds during the last completed FY. In line with the description of the sub-national administrative system in section 2.3.8 of this report, the basis for rating this indicator comprises SNA level 3 (communes and sangkats) which prepare and implement their budgets with high degree of autonomy and are accountable to the local constituency through directly elected councilors.

(i) Transparency and objectivity in the horizontal allocation among SN governments

The vertical allocation to the three levels of SNA is determined by a fixed percentage of the previous year's actual recurrent revenue of central government as stated in the budget law for the year of allocation. For 2014 it was 2.8% for commune/sangkat level.

The horizontal distribution is determined by a formula specific to each level of SNA and divided into an administrative component and a development component. For communes/sangkats it is as follows:

- one third is allocated to the administrative component for recurrent expenditure (personnel and Operations and Maintenance (O&M)); two thirds are allocated to local development projects;
- admin component is determined by 30% for equal allocation across all communes/sangkats, 60% according to number of commune/sangkat council members, and 10% based on a poverty index;
- local development component is determined by 30% for equal allocation, 30% based on commune/sangkat population, 30% based on the poverty index, and 10% for number of villages in the commune/sangkat.

The poverty index is prepared by MOP and updated annually.

Communes/sangkats have authority to collect revenue only from very few and very minor sources (e.g. administrative fees for issue of birth and marriage certificates). They are entirely dependent on the subsidy as other income typically amounts to only a few percent of their total expenditure.

This dimension is scored A because the horizontal distribution of all transfers to communes and sangkats is based on transparent and formula based systems.

(ii) Timeliness of reliable information to SN governments on their allocation

The communes/sangkats prepare their own budgets without interference from the central government. They submit the budgets to MOI for information in October of the year prior to the budget year. As the formula is well known and based on the central government's budgeted recurrent revenue for the year in which budget preparation takes place, all parameters are known well in advance of the communes/sangkats' budget preparation. In practice the communes/sangkats are informed in July about their subsidy for the coming fiscal year.

Transfer of the subsidy takes place in four quarterly instalments of equal size. The first instalment is transferred first week of the fiscal year. Subsequent transfers take place upon submission of an expenditure report for the previous quarter by the commune/sangkat to MOI. In practice some communes/sangkats have capacity constraints in preparing correct expenditure reports, leading to delays in the following transfers, but such delays have hardly ever exceeded one month.

This dimension is scored A, because communes/sangkats are provided reliable information on their subsidies for the coming year several months before they complete their budgets.

(iii) Extent of consolidation of fiscal data for general government according to sectoral strategies

In 2013 the CoAs for communes and sangkats was significantly different from the CoA of central government and in any case did not include a functional classification. It was therefore impossible to consolidate the information from all levels of government. Whilst improvements in consistency of the economic classification were undertaken with effect from FY2014 a functional classification is still not in place. Consolidation of expenditure across all levels of government for FY2014 has not been done yet with any breakdown by economic or any other classification (except administrative).

This dimension is scored D because fiscal information from communes/sangkats cannot be consolidated with central government expenditure according to sectoral or functional classification.

Table 3.15: Scores for PI-8

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-8	**Transparency of inter-governmental fiscal relations**	**C+**	**B**	**Scoring Method M2**
(i)	Transparent and rules-based systems in horizontal allocation among SNGs	C	A	Communes/sangkats are entirely dependent on subsidies from the Commune Fund. Both the vertical allocation to the Fund and the horizontal distribution across communes are based on transparent and formula based systems
(ii)	Timeliness of reliable information to SNGs on their allocations	A	A	Communes/sangkats are provided firm information on their subsidies for the coming year several months before they complete their budgets, and disbursements follow a fixed schedule with minor delays only for communes that fail to submit quarterly accounts on time.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	D	D	Functional or sectoral classification of expenditure is included in the chart of accounts neither for central government, nor for communes/sangkats.

Box 3.7: Ongoing Reform Activities

The new and unified chart of accounts to be introduced in 2015 should enable classification and consolidation of expenditure of all levels of government, leading to a potential improvement of the score on dim(iii).

PI-9 Oversight of aggregate fiscal risk from other public sector entities

This indicator assesses the extent to which central government monitors and manages fiscal risks with national implications arising from activities of SN levels of government, autonomous government agencies and PEs. Fiscal risk can take the form of debt service defaulting (with or without government guarantee), operational losses caused by quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations. The assessment is based on the last completed FY.

(i) Extent of central government monitoring of AGAs and PEs

In the context of Cambodia at present, there are 12 PEs wholly owned by the government and 3 in which the government holds majority shares, Annex 5.2. The largest of the enterprises is Electricite du Cambodge, which accounts for more than 80% of the combined turnover of all PEs. The other major ones are Telecom Cambodia, Phnom Penh Water Supply Authority, Phnom Penh

Autonomous Port, and Sihanoukville Autonomous Port. In addition, NBC, which is the central bank, is by GFS definition a financial public enterprise, but it has a different status and different supervision arrangements.

There are 26 public administrative entities (i.e. autonomous government agencies) of which the five largest are Apsara Authority (managing the historical sites), National Social Security Fund, Calmette Hospital, Royal University of Law and Economics, Royal University of Phnom Penh, and University of Health Science, ref. Annex 5.1.

PEs and PAEs are required to provide their quarterly and year-end financial reports to the central administration. PEs follow the law on public enterprises, royal decree or sub-decree establishing public enterprises, and sub-decree no. 41 A.N.KR.BK, dated 6 July 1997 on the implementation of the general statute for public enterprises. PAEs follow law and regulations on public administrative entities, royal decree or sub-decree establishing public administrative entities, and circular on the implementation of royal kram no. 005 S.H.V.T.R, dated 27 November 1997 on the implementation of the general statute of public enterprises. The central administrative mechanism requires monitoring of the budget execution of PAEs through the use of financial controllers and government inspectors, in accordance with the standard quarterly meetings of the Board of Directors. PEs submit their annual audited accounts.

The GDSPNTR collects reports directly from all PEs and PAEs with the exception of the NBC. Reports from PEs are annual and audited either by private audit firms or by inter-ministerial audit teams. Reports from PAEs are monthly and annual. The report from NBC is issued annually and audited by a private audit firm (most recently PriceWaterhouseCoopers). It is submitted to its Board of Directors and available to other stakeholders on request.

The GDSPNTR consolidates the financial information into annual reports (one for PEs and another one for PAEs) to the Minister of MEF including aggregate revenue (with sources) and expenditure (by chapter) as well as (for each PE) value of assets, government equity, annual surplus, taxes and dividend settlement. The reports also provide trends in these variables. However, GDSPNTR is yet to formulate mechanism, procedures, or strategy to monitor, address and control fiscal risks, especially related to forecast and formulation of income/expenditure, at these public entities, in order to avoid challenges negatively affecting the central government as a whole. Whilst the consolidated reports appear to be complete as concerns PEs (with the exception of NBC), complete data is only available in the consolidated reports on 16 of the 26 PAEs.

This dimension is scored C, because most of the major PEs and PAEs submit annual reports to central government. A higher score would require that information on all major PAEs is complete and that the central government consolidates the information into reports that analyze fiscal risks to central government.

(ii) Extent of central government monitoring of SN governments' fiscal position

The central government receives quarterly reports from communes/sangkats[18], submitted through MOI. The reports provide data on expenditure in the previous quarter and balances on the subsidy received. The reports do not highlight any issues that could be considered for assessing fiscal risks (such as contracting of significant amounts etc).

[18] As for PI-8, provincial administrations and districts/ municipalities are considered entities of central government and therefore not covered by the scope of PI-9.

However, the sangkats/communes are in practice not able to create fiscal risks for the central government. Whilst they formulate and execute their own budgets, their revenue constitutes almost entirely transfers from central government and all payments are made through central government treasuries. They are not authorized to borrow money or to make any expenditure exceeding their budget without prior approval from the central level, and this measure is particularly to avoid arrears. They are allowed to keep their savings or maintain balance of petty cash advances up to 1/3 of their approved budget. There is no indication for the recent three years that sangkats/communes are creating expenditure arrears or bank overdrafts or other obligations that could eventually become a liability to the central government. If such problems exist they are very minor and the reports show positive financial positions for the commune/sangkat level.

The MEF/GDFSNA and MOI[19] consolidate the commune/sangkat reports into reports showing the overall financial position of communes/sangkats respectively. These consolidated reports are rarely delayed, as delays in receiving the reports and reconciling the data with GDNT information rarely exceed one month.

This dimension is scored A, because communes and sangkats cannot in practice create fiscal risks of any significance for the central government.

Table 3.16: Scores for PI-9

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-9	**Oversight of aggregate fiscal risk from other public sector entities.**	**C+**	**C+**	Scoring Method M1
(i)	Extent of central government monitoring of AGAs/PEs	C	C	MEF/GDSPNTR receives annual reports on all PEs and most PAEs. Consolidated overview of revenue, expenditure and investments (excluding NBC) is provided in each report but does not identify and analyze fiscal risks to the central government. The report on PEAs for FY 2013 provided complete information on only 60% of the PAEs.
(ii)	Extent of central government monitoring of SN governments' fiscal position	A	A	The financial position of all levels of sub-national administration is monitored quarterly and consolidated into reports for each SNA level separately. Whilst these reports do not identify or analyze fiscal risk issues, in practice the communes and sangkats cannot create fiscal risks for central government.

Box 3.8: Ongoing Reform Activities

None reported.

19 Based on information from GDFSNA only. The validation mission did not meet MOI.

PI-10 Public access to key fiscal information

This indicator assesses the extent to which information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Transparency principle requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion. The assessment is based on the last completed year i.e. FY2014 (see Table 3.17).

Table 3.17: Elements of information to which public access is essential

Elements of information	Criterion met	Remarks
[i] Annual budget documentation (complete)	No	The budget documentation is publicized but only after the budget law has been enacted. A new development is that the meetingsin November/December 2014, in which the Minister of MEF addressed the National Assembly during the legislature's review of the draft budget law, were open to the civil society, development partners and media.
[ii] In-year budget execution reports	No	The monthly in-year reports are based on the format of the TOFE and publicized more than 2 months from end of the reporting period[20]. As the production of the report takes 2-4 weeks (ref PI-24) the publication takes place with a delay of more than one month from production of the report.
[iii] Year-end financial statements (audited)	No	The end-year financial report is publicized (in terms of the budget settlement law), but with considerable delay. The financial report for FY2013 was completed and audited by November 2014, but had not yet been publicized as at 16th July 2015.
[iv] External audit report	No	The latest audit report is on the consolidated financial execution for FY2013, completed in November 2014. By July 2015 it had not been published i.e. more than six months after report completion
[v] Contract awards: Award of all contracts with value above approx. USD 100,000 equiv	No	No information is publicized
[vi] Resources available to primary service units (PSUs): for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics)	No	Information on resources available is posted on the notice board at each school, though not always with complete information. Information on resources available is not available to the public for other individual service facilities.

As shown in Table 3.17 four of the essential elements of information are being publicized, but in each case with delays well beyond those set in the scoring criteria. The score for this indicator is therefore D. A higher score would require that timeliness is achieved for at least one element, which should be relatively easy for in-year execution reports.

[20] E.g. on 4 August 2015 the latest report posted on the MEF website was the one for April 2015, on 8 September the latest report was for May 2015. Moreover, the draft Open Budget Survey 2015 for Cambodia concludes that the in-year report is published more than 3 months after the end of the reporting period, ref. information received from the NGO Forum.

Table 3.18: Scores for PI-10

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-10	**Public access to key fiscal information**	**C**	**D**	None of the six criteria have been met. Whilst four of the report types listed are being made public, this happens with (mostly significant) delay.

Box 3.9: Ongoing Reform Activities

The RGC has started to produce a 'citizen's budget' i.e. a layman's summary of the approved budget law. The citizen's budget for FY2015 was publicized on the MEF website in March 2015. The Minister of MEF addressed civil society, development partners and the media in May 2015 and briefed them on the FY2016 budget preparation process.

3.3 Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

This indicator assesses the organization, clarity and comprehensiveness of the annual budget process as well as participation of line ministries, departments and agencies[21] in the budget formulation process.

(i) Existence of and adherence to a fixed budget calendar

Article 39 of the Law on Public Finance System 2008 contains the budget preparation calendar:

Budget Strategic Planning Phase, March–May

During the first week of March, MEF prepares the medium-term macroeconomic framework and State budget policy consistent with national policy for development and submits to the Royal Government (i.e. Council of Ministers) for review and approval.

During the first week of April, the Minister of MEF issues an instructive circular to ministries and provinces on the preparation of the Budget Strategic Plans (BSP), based on the medium term macro-economic framework and state budget policy, as approved by the Government. The BSP has to show the linkage between spending and the National Socio-economic Development Plan and has to include capital spending (and therefore has to reflect DP-funded projects). Preparation should be coordinated by an inter-departmental PFM working group. The deadline for submission of BSPs is mid-May, permitting about six weeks for preparation.

[21] Departments and agencies which receive funds through a parent ministry are not considered in the assessment; only those which are directly responsible for implementation of the budget or receive fund from MEF.

Preparation of Annual Budget, June-September

During the first week of June, the MEF prepares a draft instructive circular on budget preparation techniques, including standard forms and explanatory notes. The circular is submitted to the Government for approval and then sent to ministries and provincial governments. The budget plans have to be submitted by July 15, according to the Law, but in practice, some plans are submitted later in July[22]. However, the GDB is aware of minor delays from (usually the same major LMs) and have built this into the plan for processing and discussion of the submissions, so that the delays do not spill over to the subsequent steps of the calendar. During August, MEF discusses the budget plans with LMs and provincial governments. Following agreement and reconciliation, MEF prepares a draft annual budget law during September.

Budget Approval, October-December

During the first week of October, MEF sends the draft budget law to the Council of Ministers for review and approval and submits to the National Assembly in the first week of November for review and approval. The draft is then submitted to the Senate in the first week of December for review and approval. The draft budget law is approved before the end of December. The budget calendar for fiscal year 2015 is set out in Table 3.19.

Table 3.19: Budget calendar as per law & actual dates in 2014

Action required	Timing according to law	Actual dates for FY2015 budget
MEF submits medium term macro-economic framework and public financial policy to RGC for review /approval	1st week of March	
MEF issues instructive circular on preparation of BSP	1st week of April	2nd April 2014
Deadline for submission of BSPs to MEF	15th May	10th May 2014
MEF prepares instructive circular on budget preparation techniques and procedures for RGC approval – and subsequent distribution to budget entities.	1st week of June	6th June 2014
Budget entities submit budget plans to MEF	Deadline 15th July	15th July 2014
MEF invites budget entities to discuss and defend their budget proposals (technical discussions).	Month of August	
MEF prepares draft financial law by reconciling revenue and expenditure (including political level discussions)	Month of September	
MEF send draft budget law to Council of Ministers for review and approval	1st week of October	
MEF sends approved draft budget law to National Assembly for review and approval	1st week of November	27th October 2014
National Assembly sends draft budget law to the Senate for review and approval	1st week of December	28th November 2014
Budget law passed by National Assembly and Senate	Prior to 25th December	18th December 2014

22 MPWT mentioned problems with getting timely inputs from its provincial departments, causing a delay in submission to MEF.

Action required	Timing according to law	Actual dates for FY2015 budget
The King signs the budget law	Prior to 1st January	19th December 2014.

Sources: Law on Public Finance System 2008, Budget Law 2015, circulars on BSP and budget estimates preparation for FY2015.

This dimension is scored A, because a clear budget calendar exists and is generally adhered to and it allows LMs more than six weeks in total to prepare their budgets.

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

As explained above the budget submissions by the ministries and institutions are prepared in two stages, namely the BSP formulation and the detailed budget estimates.

A standard form guides the preparation of the BSP: (i) roles and responsibilities of ministry; (ii) policy objectives; (iii) programs or strategic priorities consistent with objectives, showing projected resource requirements for each of the following three years, divided into wage, non-wage current, and capital spending requirements, including those financed by DPs (one line for each cost category), and own-source revenue projections (including from DPs) and strategies for strengthening revenue collection; and (iv) physical indicators and targets for each program/strategic priority.

The guideline document and an accompanying multitude of standard forms guide the preparation of the detailed budget. The overall spending ceiling is specified in terms of a percentage of GDP (separately for current and capital). A ceiling is set, in terms of GDP, for the four sectors (social, economic, administration, security), though this is a "soft" ceiling and is more of an indicative guideline rather than a ceiling, as the analytical basis for the ceilings is not yet fully determined. The main priority areas are mentioned (e.g. education and health).

The main basis for preparation is the current year's budget, adjusted for approved wage rate increases, approved new recruitment less projected retirement, adjustments to the budget during the year and unexpected price developments during the year. Non-discretionary non-wage current expenditure (e.g. utilities) cannot be increased. In other words, the basis for preparation is the continuation of the levels of services currently being provided.

In addition, ministries can request additional resources to finance additional discretionary current expenditure ("procurement" expenditure) consistent with their BSP submission up to a percentage growth ceiling, particularly for ministries under the program budgeting framework. The requests must be defended at the budget discussion meetings with MEF in August.

This dimension is scored A because comprehensive and clear budget circulars (for BSP and Budget Plans respectively) are issued to LMs and reflect ceilings approved by the government prior to the circulars being distributed.

(iii) Timely budget approval by the legislature or similarly mandated body

Discussions with the GDB and the National Assembly as well as documentary evidence confirm that the budget was approved by the legislature before 25th of December in each of the years 2014, 2013 and 2012.

This dimension is rated A, because the budget has been approved prior to the start of the budget year in each of the last three years.

Table 3.20: Scores for PI-11

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-11	**Orderliness and participation in the annual budget process**	**A**	**A**	**Scoring Method M2**
(i)	Existence of and adherence to a fixed budget calendar	A	A	LMs have about 4 and 5 weeks in order to prepare their budgets for the two stages respectively i.e. about 9 weeks in total. Both stages include indicative (soft) ceilings approved by the Council of Ministers. While minor delays in some LM submissions occur, they are insignificant and do not affect overall adherence to the calendar.
(ii)	Guidance on the Preparation of budget submissions.	A	A	The BSP circular is implicitly approved by the Government through its previous approval of the macro-economic framework and any policy revisions/reprioritizations. The detailed budget circular is approved by the Government prior to its distribution to ministries/ provinces. Top-down ceilings are imposed for overall expenditure (separately for current and capital) and for the four sectors in terms of percentage of GDP (indicative). Detailed estimates prepared by ministries/provinces are guided by the amounts of allowed increase from the previous year, as stipulated in the guidelines for different economic categories.
(iii)	Timely budget approval by the legislature	A	A	The budget law has been approved by the legislature and the King has given his assent before the 31st December in all of the last three years.

Box 3.10: Ongoing Reform Activities

For reforms related to dimension (ii), see Box 3.11. No other reforms reported

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

This indicator considers the link between budgeting and policy priorities in the medium-term perspective and the extent to which costing of the implications of policy initiatives are integrated into the budget formulation process.

(i) Preparation of multi-year fiscal forecasts and functional allocations

MEF has established two processes that provide important inputs in the preparation of Annual National Budget. The first process is a three-year rolling "Budget Strategic Framework" that follows a bottom-up approach and is prepared by the GDB. The main inputs for this analysis are the information collected during the ongoing dialogue between MEF and RGC budget institutions, and inputs provided by RGC budget institutions to MEF on their expenditures and indicative requirements for the next two years. The second process is the tracking of revenues and expenditures as well as preparing projections of likely revenue and expenditure levels that are known as the "Medium-Term Expenditure Framework (MTEF)". These projections of aggregates are based on a top-down macroeconomic analysis on the performance of the economy, RGC's priority policies, as well as trends in revenue and expenditure. The GDEPFP is responsible for this analysis. Both processes operate on a three-year basis and are updated annually. However, the two processes are not directly linked. Only the fiscal aggregates of the MTEF are updated on a rolling basis - with links from one annual update to the next - and shared with LMs and other budget institutions ahead of the annual BSP update. However, the MTEF estimates are indicative only, are not endorsed politically and do not set any official levels or ceilings in the budget preparation process.

This dimension is scored C because three-year forecasts of fiscal aggregates are prepared annually on the basis of the main economic categories. A higher score would require that such forecasts include breakdown of the aggregates by sector, function or administrative classification and changes that from one year's update to the next are explained.

(ii) Scope and frequency of debt sustainability analysis

DSA for external and domestic debt has been undertaken annually by Debt Management Office, GDB since 2011. According to a Sub-Decree approved by the Prime Minister, it should be done every two years: in practice it is done every year. Analysis is based on the training provided by IMF. The analysis is compared with the annual DSA undertaken by IMF/IDA as part of IMF's annual Article IV consultations, and reported to the Public Debt Management Committee, chaired by the Minister of Economy and Finance. According to IMF reports, the two DSAs use broadly similar macro-economic assumptions and agree that Cambodia remains at low risk of debt distress under the baseline scenario. One difference is that IMF includes debt owing to the Russian Federation and USA dating from the old regime, on which there has been application for write-off. A conclusion has not yet been reached, but IMF includes outstanding interest and penalty on the debt, whereas RCG has stopped accruing interest and penalty and includes only the principal. The result is that IMF figures for total debt are about $280 million more than RGC figures.

This dimension is scored A, because a DSA covering external and domestic debt is undertaken by MEF annually.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

A National Strategic Development Plan has been prepared covering the 5-year period 2014-2018. The preparation was coordinated by the MOP and is a successor to the NSDP for 2009-2013. The NSDP covers four main components, each with four sub-component, as well as five overarching environment areas of strategy implementation, including the macro-economic environment. Costing of the NSDP 2014-2018 is done separately for recurrent expenditure and capital expenditure. Overall the costing is in line with projected fiscal aggregates. However, the recurrent costingprovides aggregates by LM whereas capital cost is broken down by components. As the classifications of the two parts are different it is not possible to combine recurrent and capital costs by LM, sector or main function. Moreover, there is no explanation of how the costs relate to individual programs or sub-functions and no explanation of links between recurrent and capital costs.

Sector strategies for five years or longer are in place for education and health and includes costing of all components. The education sector plan (2014-2018) contains projections of recurrent and capital costs for each sub-sector or program (e.g. basic education), the recurrent cost projections being mainly driven by student enrolment and unit cost projections. The projections are broadly consistent with aggregate fiscal forecasts, linked through the aggregate estimates of the NSDP. Total education sector spending is 12.4 percent of total primary expenditure in the budget (excluding externally financed projects) in FY2013.

The second health sector strategic plan (2008-2015) projects costs, broadly consistent with aggregate fiscal forecasts. Only current costs are projected, under the assumption that existing infrastructure can be utilized. It is mentioned that capital costs will be projected later if circumstances dictate. Health spending under the control of MOH amounts to about 10.5 percent of total primary expenditure in the budget (excluding externally financed projects) in FY2013.

Other sectors (LMs) prepare strategic plans for 3 years as part of the annual BSP process, but there is no indication that these BSPs include full and detailed costing (as the plans are mainly of a qualitative nature) or are consistent with fiscal aggregates (as they are neither guided by fixed ceilings nor added up to align with aggregates).

This dimension is scored C because the education sector and (to a large extent) the health sector have fully costed strategic plans aligned with fiscal aggregates (the two sectors account for about 23% of total primary expenditure) whereas most other sectors have strategic plans but without full and consistent costing. A higher score would require that strategic plans with full costing consistent with fiscal aggregates are available for sectors representing more than 25% of total primary expenditure.

(iv) Linkages between investment budgets and forward expenditure estimates

The recurrent and capital budgets are prepared separately in different formats.The investment budget is financed for approximately 25% by the government's general revenue sources (including direct budget support channeled to the GDNT through grants and loans) with the remaining 75% financed from external funding (grants and loans) earmarked for specific projects. Whilst there are some investment projects that require combined funding from domestic and external sources, budgeting for investment from the two sources are largely separated. Project selection is based on whether the projects are ongoing or planned, and in the latter case if funding has already been committed for the project (by an external agency) or funding remains unidentified (ref. PIP 2015-2017 paragraph 37).

Recurrent cost of operation and maintenance is incorporated into the RGC budget on an annual basis at the time when the investment project is completed and the assets require funding for operation and maintenance. According to the GDB the funds available for this purpose are usually deficient, as earmarked external funding cannot be used for this purpose. Only for the roads and irrigation sectors is recurrent budget funding specifically set aside for operation and maintenance of infrastructure – until FY2014 included under the un-allocated expenditure line but in reality earmarked for the two sectors separately.

This dimension is scored C because investment decisions have weak links to sector strategies and because recurrent cost implications of investment projects are in forward budget estimates only in the roads and irrigation sectors.

Table 3.21: Scores for PI-12

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**B**	**C+**	Scoring Method M2
(i)	Multi-year fiscal forecast and functional allocations	C	C	Three-year forecasts of fiscal aggregates are prepared annually on the basis of the main economic categories. There is no breakdown of the aggregates by sector, function or administrative classification and changes from one year's update to the next are not explained in any detail.
(ii)	Scope and frequency of debt sustainability Analysis	A	A	DSA covering external and domestic debt is undertaken by MEF annually
(iii)	Existence of costed sector strategies	B	C	The education sector and (to a large extent) the health sector have fully costed strategic plans aligned with fiscal aggregates. The two sectors account for about 23% of total primary expenditure. Most other sectors have strategic plans but full and consistent costing is not provided.
(iv)	Linkages between investment budgets	C	C	Investment decisions are mainly made on the basis of availability of external funding, rather than on the basis of sector strategies. Recurrent cost implications of investment projects are not included in the prioritization criteria for selection and only in the roads and irrigation sectors are there specific attempts to set aside recurrent budget for O&M related to the investments.

Box 3.11: Ongoing Reform Activities

Program budgeting is being introduced gradually, so far in 10 pilot ministries. The share of the budget covered by program budgeting was in the order of only 3% up to 2014, but the range of expenditure categories covered by program budgeting and the roll-out to additional institutions is expanding its importance. The capacity to prepare the related Budget Strategic Plans is simultaneously being strengthened.

MEF is planning to broaden the MTEF to coverestimates for sectors in order to improve the basis for budget allocations.

3.4 Predictability and control in budget execution

PI-13 Transparency of taxpayer obligations and liabilities

This indicator assesses the level of transparency of tax liabilities including clarity of legislation and administrative procedures, access to information, and the ability to contest administrative ruling on tax liability. The assessment is done as at time of assessment, and covers major tax revenues arising from all central government entities.

Two general departments, GDCE and GDT collect the majority of taxes in Cambodia. GDCE's key revenue earners are duty on imports, and VAT on imports. GDCE primarily deals with accredited and trained customs brokers, who represent importers and other stakeholders. To facilitate clearance of goods importers or their agents must prepare and lodge a declaration using a standard Single Administrative Document (SAD) generated on the Automated System for Customs Data (ASYCUDA). ASYCUDA's main server is housed at GDCE, and connected by a wide area network to various customs check points around the country.

As of 2015 GDT has a headquarters, twelve tax branches in Phnom Penh and 24 provincial tax branches. GDT's top performing taxes include the profit tax, domestic VAT and the salaries tax. In 2014, about 2,000 large taxpayers contributed about 74% of GDT's total revenue collections. Overall, GDT's tax base is quite narrow with around 30,000 medium and large taxpayers registered in the 'real regime'[23], and contributing 94% of GDT's total revenue in 2014.[24] Another 65,000 small businesses under the 'estimated regime' paid a presumptive tax.

(i) Clarity and comprehensiveness of tax liabilities

The two tax main laws are the Law on Taxation (LOT) and the Law on Customs. LOT was promulgated in 1997, and revised in 2003 and covers profit tax, salary tax, VAT, withholding tax and stamp tax among others. In 2013, GDT embarked on revamping LOT to: incorporate industry-specific requirements for taxpayers in mining and oil and gas; and make certain terms used in the current act clearer (e.g. definitions of resident, effective management, technical services and obstruction). So for example, a big four accounting firm is of the view that the LOT "defines obstruction very broadly".[25] These revisions aim to remove ambiguities, minimize disputes and encourage taxpayer compliance.

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23 Taxpayers registered under the real regime must keep appropriate accounting and book-keeping systems and file tax returns through self-assessments, where as those under the estimated regime pay a presumptive tax based on turnover.

24 Source: GDT Bureau of Statistics.

25 KPMG (2013) *Cambodia Tax Profile*. Produced in conjunction with the KPMG Asia Specific Tax Centre.

Since the Law on Customs was enacted in 2007, RGC has instituted minor policy changes to boost revenue. In addition to a prakas on the appeals process in customs issued in 2010, in 2011 GDCE began to implement the Valuation Agreement. The World Trade Organization's valuation guidelines were comprehensively implemented only in July 2014. The roles of GDCE in Special Economic Zones are specified in a series of letters issued by MEF between 2010 and 2012. Roles include: the review of master lists of investors; examining and approving the movement of goods from border checkpoints to Special Economic Zones; and the approval of goods to be imported and exported.[26]

There are issues to do with gaps in and transparency of the laws. For example, double taxation agreements with other countries are generally absent, and there is no guideline on transfer pricing. Still, "GDT has broad powers to re-allocate income and deductions between related parties under common ownership to prevent avoidance or evasion of taxes".[27] Also, there is need to reform the excise tax, where tax rates on luxury goods such as tobacco and diesel are low, and ad valorem rates as opposed to specific taxes with indexation are used.[28] Moreover, tax officers are able to exercise considerable "discretion in the application of tax laws…partly due to weaknesses of management systems, processes, and controls, and limited information and assistance to taxpayers".[29] This latter perspective is shared by the Cambodia Chamber of Commerce (CCC) who indicated that it is not uncommon for tax officials to reduce the tax liabilities of its members in return for kickbacks. Furthermore, CCC mentioned that unpaid tax liabilities (e.g. with respect to the property tax and stamp tax on property transfer), are transfered from the original purchasers to new owners, and are perceived to be unfair.

This dimension is rated C because the tax legislation is fairly comprehensive and clear. A higher score would require that certain laws are made clearer and discretionary powers reduced to make the regulatory framework transparent and fair (e.g. profit tax, VAT and excise duties).

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Both GDCE and GDT have websites which provide taxpayers with access to tax laws, sub-decrees, prakas, circulars, notifications and procedures in Khmer and/or English.[30] Both departments also provide details of each tax in brief, which specifies tax and duty rates. In addition, GDT holds tax seminars around the country, and issues invitation letters to taxpayers when they submit tax returns. Recent seminars covered profit tax by sector and the salary tax. GDT has also developed: applications for use on smart phonessuch as a tax calendar and guidance on the salary tax and road tax; and booklets on patent tax, withholding tax, tax on fixed assets, salary tax and tax on profit. What is more, a Private Sector Working Group has been established to facilitate dialogue with GDT's officers on technical issues. In 2015, GDT opened a 'state of the art', taxpayer call center in Phnom Penh. It intends to issue a manual of frequently asked questions.

GDCE has an active "Customs Private Sector Partnership Mechanism (CPPM)" established under prakas number 906 of October 2009, which is a forum created under the RGC's Private Partner Forum chaired by the Prime Minister. CPPM, which is jointly chaired by the Director General GDCE and Chief Executive of the CCC met annually since its launch in January 2010, to deliberate on

26 RGC (2013) *Laws and Regulation related to the Establishment and Management of Special Economic Zone*. First Edition.

27 Deloitte (2015) *Cambodia: Highlights 2015*. International Tax. http://www2.deloitte/content/dam/Deloitte/global/Documents/Tax/dttl-tax-cambodiahighlights-2015.pdf [Accessed 21 July 2015].

28 GDT (2012) *Cambodia: Tax Revenue Reform – Issue, Further Reforms*. Presentation by Mr. Um Seiha at IMF-High Level Tax Conference for Asian and Pacific Countries.

29 IMF (2013) *Cambodia: 2012 Article IV Consultation*. IMF Country Report No. 13/2.

30 See www.customs.gov.kh and www.tax.gov.kh [Accessed on 5 July 2015].

customs procedures, grievances and challenges faced. At the end of the 4th meeting held in February 2014, a report of the deliberations was published.[31] From CPPM 2015, members will meet more often.

Most of the above acitivities started in 2013 for GDT – for example, the CCC indicated that only one meeting of the Private Sector Working Group had been held to date (in 2014). GDCE's copyright for its website is dated 2014 (when launched). In 2012, RGC acknowledged that limited staff capacity and budget constraints undermined the revenue administration's ability to assist taxpayers in understanding their tax obligations.[32] In the medium-term, building the necessary human resource capacity, and securing the necessary budget resources are likely to constrain the extent to which taxpayers can access comprehensive, user-friendly and up-to-date information. So for instance, according to CCC taxpayer education seminars are not regularly provided.

This dimension is rated B because information is readily available on GDT and GDCE websites and there are forums which promote dialogue with taxpayers. A higher score would require that internal human capacity and budget constraints are removed to provide taxpayers with access to information, which is more regularly updated and disseminated e.g. through taxpayer seminar series.

(iii) Existence and functioning of a tax appeals mechanism

Appeals in GDCE evolve around customs valuations, seized goods and penalties that are higher than the original price of goods imported/exported. Prakas 570 of 19 August 2010 sets out the appeals procedure. An importer/broker is required to appeal to GDCE within 30 days of receipt of a notification that a penalty is due or from the date that goods are detained. Each appeal should be supported by the reasons for disputing GDCE's decision, and an acquittal guarantee. Appeals are coordinated through the Office of Legal Affairs and Public Relations. GDCE is required to deliver its decision with respect to the appeal within 60 days of receipt of the application. According to the prakas, importers or brokers who are dissatisfied with GDCE's decisions, can seek further recourse from unspecified 'other relevant authorities' and/or in court within 30 days of receipt of the department's ruling.

It was not possible to assess whether and how the appeals process in customs works in practice. In particular, the Office of Legal Affairs and Public Relations could not furnish the PEFA team with data on the volume of appeals. However, GDCE should have recruited an advocate of the court to support the appeals process, but had not done so. The absence of an advocate suggests that GDCE still does not have the requisite legal capacity to effectively discharge the appeals function.

The appeals mechanism for GDT remains unchanged from the previous PEFA assessment. LOT enables taxpayers who are not satisfied with tax redetermination or other decisions by tax administration to appeal to GDT. If the taxpayers are still not satisfied with the new decision from the tax administration, they can seek arbitration. If the taxpayers are still not satisfied with the arbitration process, they have right to file the complaint to any court which has the competency to reject the decision. However, according to GDT, in practice taxpayers do not use the courts as they are required to deposit the full amount of the assessment in advance of any hearing.

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[31] RGC (2014) *The 4th Meeting of Customs – Private Sector Partnership Mechanism*. Phnom Penh, April 2014.

[32] GDT (2012) *Cambodia: Tax Revenue Reform – Issue, Further Reforms*. Presentation by Mr. Um Seiha at IMF-High Level Tax Conference for Asian and Pacific Countries.

At the time of undertaking this assessment GDT was still fine-tuning the appeals procedures. A Tax Arbitration Committee is provided for in the LOT but had not been established. Furthermore, the enabling sub-decree has not been enacted. In other words, "there is an objection process, but there is no independent tax court or tribunal. Appeals are finally decided by the Tax Office".[33]

This dimension is scored C because a system of tax appeals procedureshas been established. A higher score would require that the system becomes fully operational.

Table 3.22: Scores for PI-13

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-13	**Transparency of taxpayer obligations and liabilities**	**B**	**C+**	Scoring Method M2
(i)	Clarity and comprehensiveness of tax liabilities	B	C	There is significant scope for making certain laws clearer and further reducing discretionary powers to make the regulatory framework transparent and fair (in particular for-profit tax)
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	Access to information is readily available on GDT and GDCE websites. There are also forums which promote dialogue with taxpayers. However, internal human capacity and budget constraints limit the extent to which taxpayers can access comprehensive, user-friendly and up-to-date information
(iii)	Existence and functioning of a tax appeals mechanism	C	C	A system of tax appeals procedures has been established, but in practice only parts of the appeal systems are operational.

[33] KPMG (2013) *Cambodia Tax Profile*. Produced in conjunction with the KPMG Asia Specific Tax Centre.

Box 3.12: Ongoing Reform Activities

At the time of this assessment, the amended LOT was scheduled to be enacted in 2015. However, there is likely to be a delay to allow for further consultation and the drafting of accompanying regulations. GDT also recently drafted a sub-decree and prakas on stamp tax and the appeals process respectively, which were being deliberated by MEF. In addition, there were 64 teams reforming prakas covering areas such as taxpayer registration and the stamp tax.

The medium-term strategies for GDT and GDCE provide for: removing discretionary powers of tax officers through the use of automation for submitting declarations and to allow electronic filing, thereby reducing opportunities for rent seeking; the implementation of an integrity program; more officers to be dedicated to providing taxpayer services; and more comprehensive dissemination of information.

In 2015, GDT opened a 'state of the art', taxpayer call center in Phnom Penh. It intends to issue a manual of frequently asked questions.

The DTA model is complete and the negotiations with counterparts are ongoing.

Reforming excise tax regime is included in the upcoming LoT Amendment. Recently, Large Taxpayers Department created an Excise Tax Office to work on that issue.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

This indicator assesses the effectiveness in tax assessment based on interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. The assessment is done as at time of assessment and covers major tax revenues arising from all central government activities.

(i) Controls in the taxpayer registration system

The Law on Commercial Enterprises (2005) and Law on Commercial Rules and Commercial Registration (1995) regulate the registration and filing requirements for all companies, partnerships, representative or branch offices and sole proprietors with registered capital of KHR 4million or more and operating in the Kingdom of Cambodia. Once a new business has been registered, the Department of Business Registration in the Ministry of Commerce (MOC) updates its registration database and issues a certificate of incorporation. A business owner then presents this certificate to GDT's office at khan level, and pays registration tax and patent taxes (for each business activity) of KHR 1million and KHR 1.14 million respectively. GDT stamps the certificate of incorporation as proof that registration tax has been paid, and issues a patent certificate. On payment of these taxes, and within 15 days of registration, a registered business falls within the real regime, and must apply for a Tax Identification Number (TIN). A TIN is unique and included on SADs in customs, on tax returns in GDT and per Article 102 of LOT "on all tax related documents…and in all contracts with government institutions".

The taxpayer registration system has a number of limitations. First, registration is confined to taxpayers under the real regime. As a result, "little information exists on taxpayers in the estimated regime, since they are monitored mainly by district offices and are not registered and assigned [TINs]..., which creates opportunities for tax evasion".[34] Second, the Economic Census of Cambodia of 2011 reported that 505,134 enterprises operated nationally, suggesting that a significant volume of activity operates outside the tax net, as only 95,000 businesses are registered by GDT as taxpayers.[35] According to GDT 505,134 the enterprises include business establishments including pagodas and street vendors, and it is therefore difficult to establish how many of them should be registered under the real regime.Third, GDT does not run campaigns to register taxpayers nor does it conduct street surveys to identify potential taxpayers. Fourth, the taxpayer registration system suffers from data entry errors as there are limited checks to verify the accuracy of information recorded by GDT (through telephone checks and use of third party information such as invoices), making it difficult to follow up delinquent taxpayers and/or remove inactive taxpayers from the register. Fifth, information sharing between GDT and Ministry of Commerce is limited – the two systems are not linked, and there is no institutionalized system in place to reconcile information contained in them.

The dimension is rated D. Whilst there are some controls in place, they appear weak and reactive. A higher score would require systematic linking of GDT and MOC systems or proactive surveys (or other checks) by GDT to ensure full and accurate coverage of registration and tax filing.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

LOT gives GDT powers to apply penalties for non-compliance. A business that does not register with GDT is deemed to have obstructed the implementation of the law (Article 128), and is liable to pay a fine of KHR 0.5 million (if under the estimated regime) or KHR 2 million (if under the real regime). The same penalty is applicable when a business does not maintain proper accounting records, destroys accounting documents or fails to submit a return within 30 days of the submission deadline. In addition, per Article 131 of LOT, a business that is found to have under declared tax is liable to pay a penalty of between 10% and 40% of the amount underpaid depending on the degree of gravity of the case, plus interest at 2% per month.

The Law on Customs provides for three main categories of penalties. First, penalties of KHR 100,000-500,000 is levied for minor violations (Article 73). Second, where an importer is found to have evaded tax through smuggling or a failure to report or unlawful removal of goods and so forth, a penalty of one to three times the duty (Article 74). Third, importers who fail to obey customs officers, or cause obstruction or do not furnish records required by GDCE can be penalized between KHR 1 million and 5 million (Article 74).

The provisions above are not fully effective in promoting compliance for the following reasons: (1) the penalty for non-registration is too low; and (2) there are challenges to do with follow up and enforcement. Both GDT and other stakeholders concur that the benefit of a business remaining in the estimated regime even when it should be in the real regime outweighs the non-registration penalty. "Two businesses...a retail shop, and a restaurant or hotel, can be doing exactly the same

[34] Unteroberdoerster, O. (2014) *Cambodia: Entering a New Phase of Growth*. International Monetary Fund. Washington D.C.

[35] RGC (2012) *Economic Census of Cambodia 2011: National Report on Final Census Results*. National Institute of Statistics, Ministry of Planning. March 2012.

business and the estimated regime taxpayer may pay USD 50 a month while a real regime taxpayer may pay thousands".[36]

The package of penalties also falls short during implementation as a result of gaps in the audit process. In particular, when cases of evasion are identified, until recently there was no system in place to enable auditors to pass them up for further investigation, by say qualified fraud specialists. However, in 2015 GDT established a new Tax Crime Investigation Unit.[37] Furthermore, Cambodia's borders are porous, making it difficult for GDCE to combat rampant smuggling of items such as cigarettes, electronics and vehicles. Corruption at border posts has also undermined enforcement.[38]

This dimension is scored C because penalties for non-compliance with registration and return filing regulations exist. A higher score would require that the provisions prove to be substantially effective in promoting compliance.

(iii) Planning and monitoring of tax audit and fraud investigation programs

In 2008, GDCE adopted the post clearance audit (PCA) methodology in line with the revised Kyoto convention. A PCA aims to establish "discrepancies and offences relating to import-export activities after goods [have been] cleared and released from customs".[39] GDCE selects cases for audit on the basis of risk factors such as the value of the consignment, its experience of dealing with the importer and the importer's compliance history. In particular, GDCE classifies cargo into the following channels: (1) Red – high risk which requires both a document and physical inspection; (2) Yellow – medium risk which should be subject to a document inspection; (3) Blue – for importers who are rated as highly compliant, a PCA is undertaken; (4) Green – which is reserved for institutions who are duty exempt, but are also subject to a PCA. In 2012, GCDE set-up three teams, with five to seven auditors each, whose focus was on Export Processing Zones and Special Economic Zones. The teams were trained in PCA techniques in Japan. It expanded the number of teams to six in 2013. GCDE intends to expand the scope of PCAs to cover regular importers.

GDT only audits taxpayers in the real regime. Several units are involved in undertaking tax audits as follows: large taxpayers; enterprise tax audit, and audit bureaus in khans. GDT undertakes comprehensive and limited audits – the former covers multiple taxes over more than one period, whereas the latter audit is restricted to desk work, projects or VAT refunds. Each unit has its own audit programs and methodologies to select cases for audit. The coverage of audits as a percentage of taxpayers registered under the real regime was reasonably high as a national average at 7.8% and 6.2% in 2011 and 2012 respectively.[40] However, there is concern that the coverage of large taxpayers remains low and needs to be increased.

This dimension is scored C because there is a continuous program of tax audits and fraud investigations. A higher score would require that audits take place and be reported on the basis of audit plans applying fully developed risk assessment criteria.

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36 Galliano, A (2015) *The urgent need for tax reform*. The Phnom Post. 8 April 2015.

37 Staff has been assigned to the unit, and given basic training. It is anticipated that staff will undertake some simple investigations during the course of the year.

38 De Carteret, D. and Kimsay, H. (2013) *Customs' taxing dilemma*. The Phnom Penh Post. 21 November 2013.

39 RGC (no date) Post-Clearance Audit. 2nd edition.

40 RGC (2013) *Enforcement Trends and Compliance Challenges in Cambodia*. Presentation by Mr. Eng Ratana at IMF-Japan High Level Tax Conference for Asian Countries.

Table 3.23: Scores for PI-14

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**C**	**D+**	Scoring Method M2
(i)	Controls in taxpayer registration system	C	D	There are substantial weaknesses in the taxpayer registration system. It is not accurate or complete, and the process of recruiting new taxpayers has not been institutionalized
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	The provisions are not fully effective in promoting compliance for the following reasons: (1) the penalty for non-registration is too low; and (2) there are challenges to do with follow up and enforcement
(iii)	Planning and monitoring of tax audit and fraud investigation programs	C	C	Whilst there has been some improvement in auditing practices, the risk assessment criteria are not fully developed or standardized. Also the scope of audits in GDCE and GDT is limited to export related imports, and a very small number of large taxpayers in the real regime respectively.

Box 3.13: Ongoing Reform Activities

In October 2014, GDT issued prakas 3388 'Notification on Obligations for Tax Registration and Tax Information Update". On the basis of this prakas, since November 2014, there has been an ongoing exercise by GDT to re-register existing businesses under the real regime and issue them with more secure VAT certificates, which includes TINs. As part of this exercise, board directors, executive directors and business owners must furnish their photos, be fingerprinted and complete tax registration forms. In tandem businesses operating under the estimated regime are also required to register. Prakas 1139 specifies the information needed for registration by both groups of taxpayers.

GDT indicated that there are no immediate plans to change the penalty system. However, there are plans to abolish the estimated regime. In its place, a simplified regime provided for under LOT, will be introduced. Taxpayers falling under the new regime will be required to maintain simple books of account. The simplified accounting system is under development.

With respect to PCAs, to enable it to expand the scope of coverage to general import and export companies, GDCE intends to increase the number of audit teams to nine, some of whom will be deployed on a full-time basis. In the medium-term, GDCE will promote the level of information sharing by implementing an automated system.

GDT intends to strengthen its risk assessment methodology for selecting audit cases, as well as hire more auditors in order to enable the administration to complete its work load, make audit reports more comprehensive and enhance sharing of information within the institution through automation. It is noteworthy that in 2014, GDT introduced an incentive scheme for auditors. "The scheme grants government auditors 10 percent of the total penalties imposed on any company, which that employee has assessed and found to be non-compliant".

In 2015 GDT furthermore established a new Tax Crime and Investigation Unit in order to escalate detection and processing of fraud and evasion cases.

PI-15 Effectiveness in collection of tax payments

This indicator assesses the ability of the revenue authorities to collect the taxes assessed. The assessment covers major tax revenues arising from all central government activities. The first dimension focuses on the last two completed FYs, while the second and third dimensions are assessed as at time of assessment.

(i) Collection ratio for gross tax arrears

Over 90% of tax arrears in the two departments relate to GDT revenue.[41] Debts largely arise when assessments are raised following audits, and taxpayers have 30 days from the issue of letters of

[41] Arrears in GDCE largely arise from unpaid duties from petroleum imports which importers net off against amounts owed to them by other RGC ministries.

notification to settle them in full. GDT auditors pass on details of unpaid debts to arrears officers for follow up. The Arrears Section sends out follow up letters, which grant taxpayers another 30 days to make payments. If debts remain unpaid, the Arrears Section will send out final notices to pay debts within 15 days. After 15 days, GDT may publish details of delinquent taxpayers in the media, and follows up payments through the issue of further letters or by phone.

Articles 109 and 111 of the LOT give GDT powers to attach liens over or confiscate the properties of delinquent taxpayers. However, in practice, it does not exercise this provision. As a result, as shown in Table 3.24, a significant proportion of taxpayers do not settle their tax liabilities, allowing interest and penalties to accrue. Between 2011 and 2013, the stock of arrears grew by an average of 13% per annum. Collections were significantly higher in 2011 than in subsequent years (i.e. 2012 and 2013).

Table 3.24: Collection of tax arrears by GDT

KHR millions	**2011**	**2012**	**2013**
Tax arrears stock, beginning of year	1,960	2,185	2,517
Total tax revenue collections	2,360	3,036	3,605
Arrears stock as % of previous year's collection	93.8%	92.6%	82.9%
Total tax arrears collections	626	390	448
Tax arrears collected as % of beginning of year stock of tax arrears	31.9%	17.8%	17.8%

Source: GDT

This dimension is scored D because the level of tax arrears is high and the debt collection ratio in all of the three years 2011-2013 was well below 60%.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

GDCE and GDT[42] receive almost all revenue collected through revenue accounts held at the National Bank of Cambodia and/or commercial banks. Commercial banks - on instructions from GDNT - transfer deposits to the National TSA and Provincial TSAs on a daily basis. GDCE and GDT receive the remaining revenues in their branch offices – these revenues are paid in cash in rural parts of the country where bank access is limited and/or by taxpayers under the estimated regime. It can take several days to transfer such deposits to the TSA.

This dimension is scored B because all tax revenue is transferred to the TSA at least weekly. A higher score would require that all revenue is transferred daily.

[42] GDCE and GDT estimate that 93% and 97% of collections are paid directly to banks respectively.

iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

GDNT maintains a revenue plan which is reviewed on a monthly basis. It also monitors and reconciles collections on a daily basis. When GDNT cannot identify collections by tax heads, the standard procedure is to set up a temporary suspense account, while the necessary follow-ups are made. Typically it takes the department a week to identify the correct tax head, and transfer collections to the appropriate revenue accounts in RGC chart of accounts.

Both GDCE and GDT produce statistics on tax assessments, collections and arrears at least on an annual basis. The process is simpler in GCDE which is able to generate this information from the ASYCUDA system. In contrast, GDT's operates manual systems which are managed by different departments and branches, and therefore information must be collated. The PEFA team saw evidence of annual reconciliations of arrears balances and audit assessments.[43]

This dimension is scored C because tax collections are reconciled with GDNT on a daily basis, whereas reconciliation of tax assessment, collections, arrears are reconciled on an annual basis. A higher score would require that the latter reconciliation is done at least quarterly.

Table 3.25: Scores for PI-15

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-15	**Effectiveness in collection of tax payments**	**D+**	**D+**	Scoring Method M1
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	D	The level of tax arrears is high and the debt collection ratio in all of the three years 2011-2013 was well below 60% (17.8% in both 2012 and 2013)
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	B	Most revenue is transferred to the government daily. Some tax revenues are collected by GDCE and GDT offices and subsequently deposited in the bank. Such deposits are not always made on a daily basis, but at least weekly
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	C	Collections are reconciled on a daily basis. However, the team was only able to obtain evidence that other items are reconciled on an annual basis

[43] RGC (2013) *Enforcement Trends and Compliance Challenges in Cambodia*. Presentation by Mr. Eng Ratana at IMF-Japan High Level Tax Conference for Asian Countries.

Box 3.14: Ongoing Reform Activities

In the RMS, GDT states that it plans to set debt collection targets for each branch office. It will also exercise its powers to confiscate and dispose of assets, and sue delinquent taxpayers as per LOT, and compile a handbook on debt collection management. Furthermore, GDT intends to automate its processes. This includes installing a debt management module that enables access to taxpayer data on debt on a countrywide basis.

PI-16 Predictability in the availability of funds for commitment of expenditures

This indicator assesses the extent to which the central ministry of finance provides reliable information on the availability of funds to MDAs, which are the primary recipients of such information. The assessment focuses on the last completed fiscal year.

(i) Extent to which cash flows are forecast and monitored

RGC has been implementing public financial reforms to progressively improve its cash resource management. To create the policy, procedures, and system for cash management with the purpose to ensure accurate and timely forecast of cash flows and ending balances, MEF issued prakas no. 880 S.H.V.BR.K, dated 19 September 2013, promulgating the implementation of the guidelines on cash management. A Manual on Cash Planning was issued in 2013 under prakas 617 MEF.PRK. The General Department National Treasury (GDNT) prepares a cash flow plan with the purpose to manage its cash resources more effectively and efficiently, and to better monitor in-year cash inflows and outflows.

Cash flow planning is managed by the Cash Management Technical Committee (CMTC) under direct supervision from GDNT's Cash Management Unit. The CMCT is a technical unit acting on behalf of the Budget Management Committee (MBC), comprising representatives from GDNT, National Bank of Cambodia, GD Budget, and the two revenue agencies, GD Taxation and GD Customs. It monitors Treasury cash balances daily. Bank balances are reconciled with the ledger balances monthly at the detailed level (see PI-22 (i)).

LMs notify CMTC of their annual cash requirements by 15 November, broken down by month and detailed by chapter, account and sub-account. CMTC submits a consolidated cash position report (annual cash plan) to the Minister of Economy and Finance and a copy to MBC so that monthly cash ceilings for each LM can be made throughout the year and included in the budget before it is submitted to the Minister of Economy and Finance by 10 December for his approval. During the year, the cash flow forecast is updated quarterly to reflect actual receipts and payments for past months, and re-forecast receipts and payments for the remaining months of the year. MOH officials said that their forecast is revised only in the third quarter.

GDNT receives monthly reports from LMs of actual receipts and payments, and monthly requests for cash ceilings. These are consolidated, and compared with projections of available resources, and the CMTC issues fresh quarterly ceilings.

Though the Cash Planning Manual requires forecasts of discretionary expenditure (expenditure other than salaries, utilities and rents) to be based on agency procurement plans, procurement planning is not sufficiently developed, so forecasts have been based on historical patterns, and the use of LM forecast data on revenues and expenditure so far has been minimal. Cash forecast report shows only records on cash inflows and outflows. A comprehensive cash plan, which analyses cash position (use of cash surplus or mechanism to replenish cash when there are shortages of cash), is not prepared. Monitoring mechanism and reporting, which analyzes actual cash inflows against forecast cash inflows, remain limited up to 2014.

This dimension is rated B because annual cash flow forecasts are prepared and updated quarterly on the basis of actual past cash flows and re-forecasts for the remainder of the year. A higher score would require that cash forecasts be updated at least monthly.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

LMs and revenue administrations prepare their quarterly revenue and expenditure programs. After approving the quarterly revenue and expenditure programs, MEF notifies LMs of their respective quarterly revenue and expenditure programs, which constitute cash ceilings for each chapter and (from 2015) each program, and informs the CMU, administration and finance departments and financial supervisors at LMs, LM departments at capital/provincial levels, and capital and provincial governors. It should be noted that effectively these are cash ceilings, not commitment ceilings, and cover advances (net of recovery of advances) as well as expenditure (see PI-20 (i) on commitment control).

In general, LMs are constrained by physical capacity and administrative factors rather than shortage of funds. Ministries of Works and Public Transport, Education and Health, for example, all agree that they have not experienced any shortfall in availability of funds for budgeted expenditures, though in some cases disbursement is late due to administrative delays.

This dimension is rated B because LMs are able to prepare their expenditure programs on a quarterly basis. A higher score would require that LMs are provided reliable information to plan expenditure commitments at least six months in advance.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

There is strong central control of expenditure against the approved budget. Line ministries are allowed to switch budget allocations only between activities within the same sub-program and within the same chapter without MEF approval. All other budget re-allocations require MEF approval. Only increases in the total budgeted expenditure need to be approved by the National Assembly.[44] Given the low level of flexibility allowed to LMs, it would be expected that the number of LM requests for budget re-allocations would be high. The number of requests (and the number of unauthorized re-allocations) is not known, but the re-allocations allowed are scheduled each year by GDB. In 2012, 173 applications to MEF were allowed, amounting to KHR 671 billion. The assessment team learned that in 2014 there were 15 or 16 adjustments in MEYS, and about 23 in Ministry of Health. Over the years 2011-2013 the average number of applications to GDB that were allowed was 92, amounting to KHR 689 billion (between 7 and 8 % of total expenditure). According to the internal assessment, every year many adjustments occur, especially adjustments from the unallocated chapter (Chapter 9) allowed by sub-decree issued by the Council of Ministers. Though

[44] In 2010, additional allocations were added to the in-year budget. In fact, the revised 2010 budget law approved on 27 December 2010 allowed additional loans of SDR 30 million for 2009 and SDR 170 million for 2010.

Chapter 9 is intended primarily for disaster relief and other such emergencies, it is used extensively for any needed unbudgeted expenditure.

This dimension is rated C because in-year adjustments are significant in amount and frequent but undertaken with some transparency. A higher score would require that in-year adjustments above the level of LM decision take place only once or twice per year.

Table 3.26: Scores for PI-16

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**C+**	**C+**	Scoring Method M1
(i)	Extent to which cash flows are forecast and monitored	C	B	The cash forecast is updated quarterly on the basis of actual past cash flows and re-forecasts for the remainder of the year
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	B	B	LMs are able to prepare their revenue and expenditure programs on a quarterly basis.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	C	C	In-year adjustments are significant in amount and frequent but undertaken with some transparency

Box 3.15: Ongoing Reform Activities

Dimension (ii): When FMIS Phase 1 is introduced in July 2015, especially in the areas of budget execution and control, provision of information to LMs on ceilings for expenditure commitments would be more reliable.

The expansion of program budgeting in 2015 is expected to allow more LM discretion and thus to reduce the number of re-allocation requests in future.

PI-17 Recording and management of cash balances, debt and guarantees

This indicator assesses the quality and completeness of debt records, debt management and the overall consolidation and control of government cash balances. The assessment of the first and second dimensions is as at the time of assessment, while the third dimension measures performance over the last completed fiscal year.

(i) Quality of debt data recording and reporting

The stock of government debt in Cambodia was 27% of GDP (including heritage debt being resolved) as of November 2013. The Department of Cooperation and Debt Management (DCDM) within GDB is responsible for recording data on domestic and external debts. The database used for such recording is the UNCTAD Debt Management and Financial Analysis System (DMFAS). Version 6 has been in use since 2014. The system has been set up at DCDM to manage daily operations and it has been connected with GDNT, FAD and GDEPFP for them to access reports. DMFAS has capacity to record debts, cash withdrawals, and debt service. All data inputs are made by DCDM. This system is not connected with KIT at GDNT.

Despite the existence of an electronic link between DCDM and GDNT that enables GDNT to have direct access to reports, hard copies of the data are still requested and sent to GDNT. These are used for its records in the accounting system.

Reconciliations between the DMFAS records and creditors are prepared annually when DCDM receives bills from creditors. This is straightforward as there are only 14 external accounts. and a single domestic creditor (a non-tradeable debt on recapitalisation of the State Insurance Company).

Reports on debt position (including aggregate debt, debt service and management) are prepared and submitted monthly to GDNT and NBC, quarterly to World Bank, and semi-annually to the Prime Minister, National Assembly and Senate, and to others on request.

Though debt records are understood to be complete and reports are monthly, the reconciliation with creditors is only on an annual basis.

The dimension is scored C because domestic and foreign debt records are complete, updated and reconciled with creditor statements annually. A higher score requires that this takes place quarterly.

(ii) Extent of consolidation of the government's cash balances

At the time of external validation of the internal assessment (9 July 2015), the RGC had 1,037 live accounts with NBC, of which 447 were riel accounts and 590 were US dollar accounts.[45] This number includes two "Treasury Single Accounts" (TSAs), one in riels and one in US dollars. Most of these accounts appear to be project accounts, opened at the request of donor partners. Though there is strict control on the opening of new accounts, which can be done only on written approval from MEF, there has not been an overall reduction in the number of accounts since 2010, rather the reverse. According to the internal assessment, no government bank accounts operated outside TSA, except for bank accounts for execution of donor projects, managed by project implementing agents at LMs, and monitored by DCDM.

The two TSA cash balances and all other government account balances are reported daily by NBC to GDNT. The daily consolidated total is known and is an input to cash management.TSA coverage has been extended to all municipalities/provinces through ACLEDA, Canadia Bank and Wing.

All financial operations of donor projects were done through the bank system (managed by the government).

There were some delays in the transfer of cash from tax and customs revenues and non-tax revenues collected by LMs that allowed some cash to sit outside TSA and GDNT management (see PI-15 dimension (ii)). Non-tax revenues of LMs are collected in branches of two commercial banks and transferred to the GDNT daily.

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[45] At the end of 2014, NBC had 1,300 accounts with government agencies, with deposits of KHR 16,236 billion, a net increase of 266 during the year. In fact, 399 new accounts were opened in 2014 for ministry agencies and their subordinate units which receive petty cash advances and other expenses directly from GDNT, per MEF Letter 216 SHV.ART of 16 January 2014 (NBC Annual Report 2014, p.26).

The dimension is scored B because most cash balances are calculated and consolidated at least weekly. A higher score would require that consolidation covers all cash balances on a daily basis.

(iii) Systems for contracting loans and issuance of guarantees

Article 68 of the Law on PFM System 2008 states that MEF is the only government entity which is authorized to contract loans and issue government guarantees. Also this law states that loan and guarantee ceilings must be clearly stated in the annual financial management law.

MEF issued a debt management strategy (2011-2018) in 2011, which is currently being updated for the years 2015-2018. With the advent of public-private partnerships (13 in the power sector in the pipeline), policy and guidelines on risk management have been prepared and approved by the Public Debt Management Committee. This will involve ceilings for both debt and guarantees.

At present, the loan ceiling is defined in the annual financial management law. Moreover, loans are based on clear criteria as stated in the debt management strategy. There is not yet a clear procedure and defined ceiling for guarantees. According to the 2014 IMF Article 4 consultation, "contingent liabilities related to the development of power generation and transmission projects under public-private partnerships (PPPs) constitute a substantial fiscal risk. The size of the projects (about 50 per cent of 2011 GDP) and the difficulty of quantifying the liabilities ex ante require continuous and careful monitoring. The authorities indicated that efforts are under way through a sub-decree to the recently published public debt management strategy to strengthen the evaluation, contracting, and monitoring of contingent liabilities, including preparation for a review of the legal framework for PPPs and the development of a new guarantee policy. However, apparent information gaps remain between government agencies on the size and status of contracts and embedded government guarantees".

The contracting of loans and guarantees can be approved only by MEF, but the guidelines and criteria on guarantees are not yet finalized.

The dimension is scored C because contracting of loans and guarantees are all approved by MEF and within limits for total debt. A higher score would require that limits for issue of guarantees are also set and respected.

Table 3.27: Scores for PI-17

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-17	**Recording and management of cash balances, debt and guarantees**	**C+**	**C+**	Scoring Method M2
(i)	Quality of debt data recording and reporting	C	C	Domestic and foreign debt records are complete, updated and reconciled with creditor statements annually.
(ii)	Extent of consolidation of the Government's cash balances	B	B	Most cash balances are calculated and consolidated at least weekly
(iii)	Systems for contracting loans and issuance of guarantees	C	C	Contracting of loans and guarantees are all approved by MEF and within limits for total debt, but not at present for guarantees.

Box 3.16: Ongoing Reform Activities

Dimension (iii): Following the new plan of reform activities for the Phase 2, Department of Cooperation and Debt Management prepared plan of action on formulation of a prakas on government guarantees, defining clear procedures and guidelines including a ceiling (in percent of GDP) for total outstanding guarantees.

PI-18 Effectiveness of payroll controls

This indicator assesses the effectiveness of the payroll system. The scope of this indicator is all payrolls of the central government, even if they cover different segments of the public service, including all MDAs and AGAs. The indicator looks at the degree of integration and reconciliation between personnel and payroll databases, timeliness of changes to personnel records, adequacy of internal controls, and the existence of payroll audits which identify control weaknesses and/or fictitious workers, through assessment of the following dimensions: (i) degree of integration and reconciliation between personnel records and payroll data, (ii) timeliness of changes to personnel records and the payroll, (iii) internal controls of changes to personnel records and the payroll, and (iv) existence of payroll audits to identify control weaknesses and/or ghost workers.The assessment of all dimensions is done as at the time of assessment, except the fourth dimension which is assessed for the last completed three FYs.

According to the government general budget clearance/execution 2013, salary expenditure is 42% of the national budget, in 2014 about KHR 13,265 billion. As usual, salary has been a huge expenditure burden for the government and the mechanism to control such expenditure is still insufficient. Sometimes, there are irregularities and wastages in the expenditure in the salary chapter.

Since 2013, the former State Secretariat for the Civil Service has been upgraded to the Ministry of Civil Service (MCS). This ministry is responsible for personnel records and payroll for all civil servants and contracted personnel, some 200,000 at present, of whom about 180,000 are permanent pensionable staff. Records are kept on the Human Resource Management Information System (HRMIS), using a SQL database. These cover all civil government employees at line ministries (about 19% of the total) and sub-national government (81%).

There are also payrolls for (1) defense, kept by the Ministry of Defense, (2) police, kept by the Ministry of the Interior, and (3) some special categories such as the legislature, Royal Palace, NAA, ambassadors, and political level appointments (Deputy Director and higher). The management of these payrolls, which represent about 38% of the total, has not been assessed.

The preparation of the civil payroll is decentralized through LMs to central departments and provinces. For instance, the MEYS has a total strength of about 115,000, spread over 33 departments and 25 provincial offices. MOH has more than 20,000 of whom 28% are at central level and 72% at provincial level.

LMs are responsible for getting all proposed changes to their staffs approved by the relevant authority, mainly the MCS or, for senior positions, the Prime Minister. Retirements are actioned automatically through the HRMIS by reference to dates of birth. Other changes originate in the LMs. The LMs are not linked electronically to the HRMIS, though this is planned. LMs mostly keep their records on Microsoft Excel spreadsheets and communication with MCS is through paperwork. From their spreadsheets, they compile lists of payroll changes and submit them to MCS each month. MCS Department for IT and Civil Service Accounts checks them with the HRMIS database. They are then approved and a complete payroll is generated for each LM and department. There is a long process of checking and verification by MCS departments, the LM Financial Controllers, and different departments of MEF.

All salaries are paid by GDNT to special salary bank accounts for each LM, and from these accounts salaries are transferred directly into the personal accounts of government employees. In some LMs, the distribution of salaries is outsourced to a private firm (Wing), which issues cheques to individual employees.

(i) Degree of integration and reconciliation between personnel records and payroll data

There is no electronic linkage between HRMIS and LM systems to ensure data consistency. Excel spreadsheets are not always protected against unauthorized access, nor is there any audit trail of changes made.

Data on personnel changes in LMs are sent to MCS on a hard-copy basis. Sometimes such papers are subject to change several times and passed from one entity to another. Through such mechanism, it is difficult to ensure the effectiveness and efficiency of the management of payroll and personnel records, and in particular has led to delay in the updating of changes in payroll and personnel records.

MCS updates payroll and personnel records on a monthly basis based on the information provided by LMs.

This dimension is scored B, as each month's payroll is supported by full documentation for changes made, and LMs check that the month's total pay reconciles with the previous month's total and the total of changes made for the month. A higher score requires a direct/automatic link between the personnel database and the payroll.

(ii) Timeliness of changes to personnel records and the payroll

MCS has responsibility to update payroll and personnel records monthly based on the personnel changes reported by LMs.

Interviews with some LMs on updating of personnel changes and payroll show that changes in personnel information and conditions are not updated promptly because some LMs do not report their personnel changes to MCS on time, despite a directive from MEF that salaries should not be delayed. The period of delay in submission of reports on personnel changes from LMs to MCS is between one and three months (and longer in a few cases) so personnel may not receive their correct salaries for up to three months after the actual changes in their status.

Furthermore, personnel departments at LMs have complicated procedures demanding staff to show up to fill in their forms and to report changes in their personnel information, while such information is already available with these personnel departments. As a result, some personnel were over three months late in reporting to their respective personnel departments. This has resulted in huge adjustments in personnel expenditure. This reduces budget credibility and the effectiveness of payroll and personnel record management.

The dimension is scored C because up to 3 months delay occurs in a large part of payroll changes and there are many retroactive adjustments (around 30% of the total). A higher score would require that the frequency of retroactive adjustments is significantly reduced.

(iii) Internal controls of changes to personnel records and the payroll

As stated above, MCS verifies payroll and personnel records on a monthly basis against the table of personnel changes reported by LMs. Verification procedures require concerned LMs to carefully review their payroll and personnel change tables before submitting them to MCS together with planned tables, comparison tables, and payment orders. Authority and basis for changes to personnel records and the payroll are clear, though there is no audit trail on changes made from month to month.

The dimension is scored B because authority for changes to personnel records and payroll are clear. A higher score would require that there is also an audit trail.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

NAA audits LMs annually, but has not performed payroll audits, and NAA reports do not mention any general findings in payroll management. The internal evaluation team did not receive any report or findings by external audit on irregularities in salary payments or ghost workers at LMs. Internal audit is also done at LMs. However, audits focus only on personnel and attendance records, not salary expenditure. At the Ministry of Public Works and Transport, the Internal Audit focuses on areas of risk, such as redundant names and retirees. At MEYS, the Internal Audit does not undertake any comprehensive salary audit as "this is outside the performance budget". Internal Audit investigates questions of compliance with financial regulations. The Department of Inspection investigates teacher complaints on salaries. It does not duplicate the internal audit investigations.

The dimension is scored D because no comprehensive payroll audit has taken place during the last three years.

Table 3.28: Scores for PI-18

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-18	**Effectiveness of payroll controls**	**D+**	**D+**	Scoring Method M1
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	B	Personnel and payroll data are not directly linked but payroll changes are fully documented and reconciled with the previous month's payroll totals
(ii)	Timeliness of changes to personnel records and the payroll	C	C	Up to 3 months delay occurs in a large part of payroll changesand there are many retroactive adjustments (around 30% of the total).
(iii)	Internal controls of changes to personnel records and the payroll	B	B	Authority for changes to personnel records and payroll are clear, though there is no audit trail
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	D	D	There has been no comprehensive payroll audit in the last three years

Box 3.17: Ongoing Reform Activities

MEF PFMRP Phase II is introducing FMIS Phase I in July 2015. The FMIS may be interfaced with personnel records and the database managed by MCS. Therefore, when the FMIS is fully functional and computerized personnel and payroll database has been upgraded, the management of personnel and payroll records will be more effective and efficient.

PI-19 Transparency, competition and complaints mechanism in procurement

This indicator assesses the effectiveness of the procurement system[46]. The first dimension focuses on the existence and scope of the legal and regulatory framework, while the other dimensions focus on the operation of the system. The assessment covers all procurement for central government using national procedures, including all MDAs and AGAs, and is done as at the time of assessment for all dimensions except the first dimension which is assessed based on the last completed FY.

Substantial public spending (nearly 8% of GDP) takes place through the public procurement system. It was 9.5 % of GDP in 2013, 7.9% in 2014 and is projected to be 7.7% in 2015. A well-functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs, and value for money in delivery of programs and services by the government. To achieve this, the legal and regulatory framework for procurement should be clear, and emphasize transparency, with open competition being the preferred method for procurement, information on procurement being available to the public, and a transparent independent appeals mechanism in place.

The General Department of Public Procurement (GDPP), MEF, is the central agency responsible for procurement using government funds. Procurement for donor-aided projects follows the procurement rules of the relevant donor, and is not included in the scope of a PEFA assessment. See section 2.3 above on the legal framework.

GDPP undertakes no procurement itself. Procurement was decentralized to LMs and provinces in 2005 (prakas 45). For procurement below the competitive bidding threshold, which is KHR 500 million (approx. $125,000), procuring entities are fully responsible.[47] For contracts over $125,000 and up to $250,000 for goods or $300,000 for works contracts, national competitive bidding is required. Above these thresholds, international competitive bidding is required. LMs are required to prepare annual procurement plans in support of their budget proposals and have them approved by MEF.

GDPP supervision is greater on contracts above the threshold. This consists of checks applied before the issue of bidding documents, and before contracts are awarded. Procuring entities submit their documents to GDPP, which checks their adherence to law and approves them. There are no site visits. Contracts below the threshold are not individually supervised, but GDPP requires a quarterly report from each procuring entity on all its contracts. Not all entities comply: GDPP estimates that 80-90% of all entities are reporting. GDPP has little power to enforce the reporting requirement, as threats to withhold approval may interrupt high priority projects and programs.

46 The PEFA methodology was modified in 2011 by adding a fourth dimension and completely reformulating the other three to reflect and provide linkages to the OECD-DAC 'Methodology for Assessing Procurement Systems' (MAPS) tool.

47 Some LMs have higher thresholds (such as Education, which can place contracts up to KHR 1,000 million on its own authority), and provincial entities have a lower limit of KHR 300 million. Three infrastructural LMs (Transport, Water Resources and Rural) are allowed higher limits on direct contracts, though this is changing: in 2015, Transport is introducing competitive bidding.

GDPP does a manual consolidation of all entity reports. A Public Procurement Management Information System is being developed by local consultants.

At present, procurement is not regarded as a professional discipline. Procurement staff are believed to number around 1,000, though there are no actual records kept by GDPP. There are minimum degree and experience requirements for recruiting procurement officers, but procuring entities do not apply these requirements in all cases, nor do they report to GDPP on new staff, nor any changes in procurement staff, except at Chief of Procurement level. Procuring entities can transfer procurement officers, even where they are fully qualified and trained, out of procurement into other areas, and vice versa, so there is no definable procurement cadre and no protection for officers who may try to apply the law more rigorously. Procurement officers have ad hoc training arranged by MEF/GDPP.[48] Also, the staffing of major procurement entities is low, e.g. in the Ministry of Public Works which had KHR 251 billion of works contracts in 2014, there are just 12 procurement officers. Implementing Rules and Regulations Governing Public Procurement (IRPP) have been prepared with TA from World Bank, issued in 2010. This may be the basic material for future training in government procurement.

The legal framework for national procurement consists of the Law on Procurement (2012) and regulations made under this law. Changes in the legal framework are planned: a sub-decree and five prakas are under discussion, and are planned to be introduced by end 2015.

In 2011, the assessment of procurement changed, so no direct comparison can be made between the 2015 scores and the 2010 scores.[49]

Under the 2011 PEFA methodology, there are four dimensions rather than the previous three and only the last dimension has retained the subject from the earlier version. The overall rating depends on an average of the four dimensional scores.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

Key elements of the Law on Procurement (2012) are assessed in table 3.29 below. A web site for the General Department of Public Procurement was set up in 2010 to disseminate information in this area.

Table 3.29: Key elements of the legal and regulatory framework for procurement

Is the legal and regulatory framework for procurement:	
organized hierarchically and precedence is clearly established.	Yes
freely and easily accessible to the public through appropriate means.	Yes, through the GDPP website
applying to all procurement undertaken using government funds.	Yes
making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified.	Yes
providing for public access to all of the following procurement information: government procurement plans bidding opportunities, contract awards, and data on resolution of procurement complaints.	No, only bidding opportunities

48 One to three weeks, depending on prior experience. No universities or other training institutions provide training in procurement. It is intended that training will be provided in future by the Economic and Finance Institute.

49 It should be noted that PI-18 on procurement is not an evaluation of the GDPP, as improvements in some dimensional scores may depend ultimately on other bodies. Nevertheless, the PEFA assessment shows how Cambodia rates as a whole according to internationally accepted good procurement practices.

providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	No

The Law on Procurement (2012) meets four of the six requirements. The dimension is rated B because at least four of the requirements are met. A higher rating would require that all six requirements be met.

(ii) Use of competitive procurement methods

Since 2013 RGC has a policy to allocate some domestic projects on a bid basis. While donor funded projects are executed transparently this has not been the case for domestically funded projects. In 2014 there were no contracts placed on bidding basis though it is aimed to start this in 2015. Based on Public Procurement Law, less competitive methods are used when: (1) procurement is urgent, (2) goods or services can be obtained only from a single source, or (3) the winning bidders breach the contract by not providing goods/services as agreed in the contract. According to private sector sources, there is no real competition amongst providers.

In 2012, out of a total of 2,351 contracts over the KHR 100m threshold, 1,577 (67%) were issued using open competitive methods and 774 (33%) were issued using less competitive methods.No information is available on what proportion of the less competitive contracts was justified in accordance with legal requirements. Procurement audits are undertaken by GDPP Department of Audit on contracts below the threshold, but these have not so far resulted in recommendations and action plans to improve procurement practice. 60 entities were audited in 2014. No competitive contracts were given in 2014 (the relevant year for assessing this dimension), and no reliable data is available on what proportion of these contracts were justified.

The dimension is rated D due to the lack of relevant data on justification of use of non-competitive practices.

(iii) Public access to complete, reliable and timely procurement information

Key elements of publishing procurement information are listed in table 3.30 below, in accordance with PEFA Framework specifications.

Table 3.30: Key elements of published procurement information

Is the following key procurement information available to the public through appropriate means?	
Government procurement plans	No
Bidding opportunities	Yes
Contract awards	No
Data on resolution of contract complaints	No

Of the four information elements, only information on public bidding documents is made available to the public, e.g. through national newspapers. Procurement plans, contract awards[50] and data on resolution of procurement complaints are not available to the public in a complete, reliable and timely way.

[50] This refers to publication of the contract name, the name of the successful bidder and the amount, not publication of the contract itself.

This dimension is rated D as the requirements for only one element of publication is met. A higher score would require that two elements procurement information are publicized.

(iv) Existence of an independent administrative procurement complaints system

Articles 62 and 63, Chapter 10 on the Law on Procurement promulgated by the Royal Decree No. NS/RKM/0112/004, dated 14 January 2012, define the settlement of conflicts and complaints but do not establish an independent institution to review procurement complaints. In case of a dispute, the settlement of the appeal/complaint is addressed by the concerned entity involved in procurement. In case of unsatisfactory resolution of the complaint and if no agreement is arrived at, the case can be referred to MEF, the administrative authority controlling the procurement agency. Complainants who are not satisfied with the decision made by MEF may appeal to the competent court of law. However, no separate independent procurement complaints mechanism exists and no complaints are made.

This dimension is rated D because no separate independent procurement complaints mechanism exists.

Table 3.31: Key elements of a procurement complaints mechanism

Are complaints reviewed by a body which:	
• is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government	No
• is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No
• does not charge fees that prohibit access by concerned parties	Yes
• follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes
• exercises the authority to suspend the procurement process	Yes
• issues decisions within the timeframe specified in the rules/regulations	No
• issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	Yes

Table 3.32: Scores for PI-19

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-19	**Transparency, competition and complaints mechanism in procurement**	**NA**	**D**	Scoring Method M2
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	NA	B	The Law on Procurement (2012) meets four of the six requirements.
(ii)	Use of competitive procurement methods	NA	D	There is no reliable data on whether contracts in 2014 were justified in accordance with legal requirements
(iii)	Public access to complete, reliable and timely procurement information	NA	D	There is no system to generate substantial and reliable coverage of key procurement information
(iv)	Existence of an independent administrative procurement complaints system	NA	D	There is no independent procurement complaints review body

Box 3.18: Ongoing Reform Activities

The RGC intends to improve transparency to enhance public access to complete, timely and reliable public information over the next few years. It is planned to publish awards in the GDPP website from 2016.

PI-20 Effectiveness of internal controls for non-salary expenditure

This indicator is intended to assess the internal control mechanisms in place by reviewing the effectiveness of expenditure commitment controls, comprehensiveness, relevance and understanding of procedures and degree of compliance. It assesses the internal control system for non-salary expenditures as at the time of assessment. It covers only the control of expenditure commitments and payment for goods and services, casual labor wages and discretionary staff allowances. Debt management, payroll management and management of advances are covered by other indicators.

In 2013, salary expenditure accounted for 42% of the national budget. Therefore, non-salary expenditure from RGC funds, excluding transfers and debt service, accounted for almost 50% of the national budget.

(i) Effectiveness of expenditure commitment controls

This dimension is intended to assess the expenditure commitment control system as an important element in financial discipline to contain expenditure within the approved budget without allowing the build-up of arrears (see PI-4 above). A commitment is defined in the Cash Management Manual as an obligation that commits the Government to a future payment. It arises when a formal action such as hiring an employee or awarding a contract is taken and which results in creating an immediate or future liability to pay on behalf of the Government. Such commitments may be of two kinds - recurrent commitments like salaries, utility payments, debt service etc, which do not require a specific contract, and commitments that arise out of placing specific contracts for goods and services – of both capital and recurrent nature. Each kind of commitment has its own procedure.

GDB Financing Department is responsible for supervising current expenditure commitments and GDB Department of Investments is in charge of overseeing capital expenditure commitments. Expenditure commitment control is done manually, i.e. there is no computerized system. MEF has delegated to financial controllers at LMs the authority to review and decide on expenditure other than through procurement procedures, for example, salary expenditure. A prakas in 2006 gave Financial Controllers power to authorize expenditure on salaries of established staff, project staff, contract officers, retirees and resigning staff, and on scholarships. MEF has developed guidelines on expenditure and financial control procedures and introduced them to LMs for implementation in 2013. However, the guidelines provide only procedures for current expenditure commitments. Moreover, urgent or exceptional expenditure commitment proposals do not follow these procedures. The procedures exist and are partially effective, but do not comprehensively cover all expenditures.

Expenditure commitment control is based on the annual budget law and quarterly revenue/expenditure programs. The Cash Management Manual says that LMs should ensure that no expenditures, including commitments and encumbrances, exceed the available cash limits for each month. However, it provides that major construction project commitments, which may take months or years to complete, need to be scheduled over the relevant months and kept within cash ceilings in those months. Individual expenditure commitment control is not dependent on the actual position of cash available at the GDNT.

This dimension is scored C, because expenditure commitment control procedures exist and are effective at keeping commitments in line with projected cash availability, even if they exclude capital expenditure and are not complied with for urgent and exceptional expenditure commitments. A higher score would require that exceptions are significantly reduced e.g. that capital expenditure commitments be comprehensively covered.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures

Control systems are established through sub-decrees, prakas and circulars and cover most aspects of financial control, as well as some non-financial controls. However, the guidelines on expenditure and financial control procedures cover only current expenditure. Capital expenditure has no clear guidelines – domestic capital expenditure constituting 24% of all domestic non-wage expenditure. Other expenditure monitoring/control systems remain limited in practice. For instance there is no computerized system to manage fixed assets.

Control procedures are cumbersome and take considerable administrative time at both levels: LMs requesting expenditure commitments and MEF approving commitments.[51] Multiple signatures are required, usually going up to the Secretary General or Minister. Each additional step creates a rent opportunity, which could reduce the resources invested in the country's development. Also, post-

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51 There has been some improvement by decentralization of control. Under phase 1 of the PFMRP, Financial Controllers in MEF/FAD (at present 21) have been moved to LMs.

expenditure control has led to overlaps and duplication of checks by MEF General Inspectorate Department and LM internal audit.

As there are major areas that are not covered by mandatory guidelines, this dimension is scored C, because basic internal control systems exist for most non-salary expenditure. A higher rating would require that the systems comprehensively cover all aspects including capital expenditure controls.

(iii) Degree of compliance with rules for processing and recording transactions

For the most part, the applicable procedures and recording of financial operations are followed, but there are still several cases identified as non-compliant with appropriate procedures. The NAA report on the accounts for 2013 shows that: (1) 1,207 payment orders in the value of KHR 710 billion were submitted to GDNT after the year-end account closure (Jan-Feb 2014), and (2) advances in the value of KHR 215 billion were not cleared by end of 2013. Account reconciliations at LMs were delayed one to five months. Revenue account reconciliations for 19 LMs were delayed one to four months.

Apart from individual irregularities, it is relevant to look at more general measures of compliance

This dimension is rated C, because rules are complied with in a significant majority of cases even if NAA reports show that non-compliance is an important concern. A higher rating would require a significant reduction in the frequency of non-compliance.

Table 3.34: Scores for PI-20

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C**	**C**	Scoring Method M1
(i)	Effectiveness of expenditure commitment controls	C	C	The guidelines provide only procedures for current expenditure commitments. Moreover, urgent or exceptional expenditure commitment proposals do not follow these procedures.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C	There is a basic set of controls in place but areas such as capital expenditure and asset management have no clear control guidelines.
(iii)	Degree of compliance with rules for processing and recording transactions	C	C	The comments by the NAA show frequent non-compliance with the rules

Box 3.19: Ongoing Reform Activities

To ensure that expenditure commitment is implemented in accordance with program budget implementation, at the beginning of 2015 guidelines on program budget implementation were adopted and introduced to LMs. Core modules of the FMIS went on line on 20 July 2015. Also in 2015, GDB will finalize guidelines on operational procedures for capital and maintenance expenditures. Therefore, performance on this indicator is likely to improve in the next assessment if the above guidelines are fully implemented.

PI-21 Effectiveness of internal audit

This indicator assesses the effectiveness of the internal audit system (as opposed to control activities) based on the latest available financial and operational information.

The internal audit (IA) function is established by the Audit Law, which is published on the website of the General Department of Internal Audit within MEF (www.gdia.mef.gov.kh). Articles 41-43 require only that an Internal Audit Department be established in each ministry and state enterprise, and report to its head, with copy to the National Audit Authority. Its purpose is to independently examine and evaluate the system of internal controls so as to provide reasonable assurance on the achievement of operational objectives, accuracy of financial reports, and compliance with all applicable laws and regulations. The organization and functioning of internal audit in ministries, institutions and public enterprises is defined by Sub-Decree No. 40 (2005).

In MEF, the General Department of Internal Audit (GDIA) has a dual role: (1) it is the internal audit department for MEF, covering all its general departments and decentralized offices; (2) it assists other ministry IA departments by providing guidance, standard report formats and training. However, it has no supervisory powers over other ministries under the law and does not generally approve their plans or receive copies of their reports. Recently it has drafted an Internal Audit Manual, which is based on international audit standards. The GDIA is a member of the Institute of Internal Auditors (IIA) and seeks to apply its standards. At July 2015 it had 23 staff of whom only one had an accountancy qualification (with others in the process of qualifying). GDIA checks LM performance and makes recommendations for improvement.

There is also an Inspectorate General Department in MEF, which examines financial management processes in the line ministries other than MEF. Its role and relationship with internal audit departments in those ministries are not clear, and there may be overlap.

This indicator is intended to assess the internal audit capability by reviewing its coverage and quality, frequency and distribution of reports and the extent of management response by reviewing the following three dimensions: (i) Coverage and quality of the internal audit function, (ii) Frequency and distribution of reports, and (iii) Extent of management response to internal audit findings.

(i) Coverage and quality of the internal audit function

Among the 40 LMs, 29 LMs have functioning internal audit departments in place. Within the context of the MEF, IA mainly focuses on local (sub-national) units (municipal, provincial levels). On IA annual plans, 80% of sub-national units were audited internally and only 30 to 40% of units at national level were audited internally. However, approximately 57% of the LMs achieved 50% of their internal audit plans. Generally, internal audit only evaluates the extent of practical compliance with the applicable rules and regulations, and staff performance, not the system issues. Since 2014, however, capacity for system audit has been built, which is now estimated to take 20-50% of staff time, but not yet meeting IIA standards that were developed through technical assistance in 2014.

The dimension is scored C because the IA function covers all government agencies and undertakes some systems review (over 20% of staff time). A higher score would require both a higher degree of focus on systemic issues and substantial adherence to internationally accepted standards for IA.

(ii) Frequency and distribution of reports

Audit reports prepared by MEF GDIA are sent to audited units for their review to ensure their accuracy. After that, the reports are sent to the MEF Minister and NAA. LMs submit their audit reports to their concerned ministers and to NAA and are not required by the law to submit such reports to MEF. However, circular no. 003 SHV, dated 16 January 2014, requires LMs to submit their audit reports to MEF on a monthly basis and to NAA on a quarterly basis. At present, they do not submit copies to MEF. The Ministry of Works and Transport reports on the completion of each audit to the respective auditee and consolidates its reports quarterly and annually. It sends a special report to the NAA bi-annually and annually.

According to reports received, 73% of LMs submitted audit reports to their concerned ministers, and 22% of them submitted such reports to NAA.

The dimension is scored C because IA Units regularly prepare reports and submit their reports to the concerned minister and to the NAA, A higher score would require that the reports are also generally sent to the MEF.

(iii) Extent of management response to internal audit findings

According to reports and discussions with GDIA, recommendations in the audit reports were implemented carefully and the gaps identified in the audit reports have been reduced year after year. GDIA says that they get a 60-70% satisfactory response within a year (some recommendations take longer to implement or involve other agencies). However, for LMs, only 25% of audited units reported that the recommendations provided were followed and measures were taken to improve. IA Departments in sample LMs claimed higher management response, e.g. of 10-20 recommendations a year in the MEYS, 90% are said to be implemented.

The dimension is scored C because a fair degree of action is taken by many managers on major issues even if it often happens with delay. A higher score would require that such delays are exceptional.

Table 3.35: Scores for PI-21

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-21	**Effectiveness of internal audit**	**D+**	**C**	Scoring Method M1
(i)	Coverage and quality of the internal audit function	D	C	The IA function covers all government agencies and undertakes some systems review (over 20% of staff time)
(ii)	Frequency and distribution of reports	C	C	IA Units submit their reports to the concerned minister and to the NAA, but not at present to MEF
(iii)	Extent of management response to internal audit findings	C	C	A fair degree of action is taken by many managers on major issues but often with delay.

Box 3.20: Ongoing Reform Activities

None reported.

3.5 Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants – this is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. Two critical types of reconciliation are: (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks; and (ii) clearing and reconciliation of suspense accounts and advances.

This indicator assesses the regularity of bank account reconciliations and regularity and clearance of suspense and imprest accounts. Dimensions to be assessed included: (i) Regularity of bank reconciliations and (ii) Regularity of reconciliation and clearance of suspense accounts and advances. This indicator assesses the situation as at the time of the assessment.

(i) Regularity of bank reconciliations

At the time of this assessment, according to NBC database, there were 1,037 live government bank accounts (see PI-17 (ii)). GDNT reconciles the two Treasury Single Accounts (one in riels and one in dollars) and several MEF project accounts. In 2013, there were 65 project accounts. All these and the TSAs are reconciled monthly with statements from NBC. GDNT receives soft and hard copy statements, manually compares debit and credit entries against their records, identifies mismatches, finds missing debit and credit receipts, payment receipts, and cash withdrawal receipts from the NBC and adds them to its records so that GDNT records of revenues/expenditures and those reflected in the bank statements are equal. GDNT bank reconciliations are completed within the first two weeks of the following month.

Other bank accounts, mainly project accounts of the LMs, are reconciled by the respective Project Implementation Units, located in the Department of Investment and Cooperation. The frequency and timing of these reconciliations is not known by GDNT.

This dimension is rated B because reconciliations of all Treasury-managed bank accounts is completed monthly within four weeks of end of period. A higher rating would require that the reconciliations also cover all central government accounts not managed by the Treasury.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Suspense accounts are used to temporarily record receipts that are without sufficient information to assign them to specific revenue accounts. At the end of 2014, the balance in revenue suspense accounts was KHR 61 billion (codes 470.8.1.2 and 470.8.1.3), which is only 0.6% of total revenue for the year. However, the balance of revenue in suspense has been increasing rapidly, from KHR 8 billion at end 2011, which indicates a need for prompter and more accurate classification of revenue at the time of receipt.

Advance accounts are used to record operations-related advances released to LMs for implementation of their projects to be undertaken by government agents, such as mobilization advances for projects. Advances do not occur regularly on a daily basis but only on the need to implement a project. Some advance accounts are cleared within a short period, but some others are not.Delayed clearance of in-year advance accounts would impact on actual expenditure because GDNT is not able to record expenditures until advances are cleared. Article 5 of the Sub-Decree No. 155 A.N.KR.B.K. on the procedures for advance releases for current and investment expenditures states that where the previous-year advances have not been cleared, the budget credit for the following year would be withheld, and that the clearance has to be completed before budget execution is commenced; and that, for delayed implementation or completion of requirements of projects which result in in-year advances not being cleared, an amount equivalent to the outstanding advances would be withheld from the budget credit for the following year.

Advances are debited to codes 473 and 478. At 31 December 2014, outstanding balances on these codes were KHR 197 billion. The trial balance at 28 February 2015 showed that there had been net credits (clearance of previous year advances) amounting to KHR 16 billion (re-coded to 15051 and 15052), so KHR 181 billion remained outstanding two months after year end (about 1.3% of expenditure for the year), This suggests that most advances are not cleared within two months, so this dimension is rated D.

Table 3.36: Scores for PI-22

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-22	**Timeliness and regularity of accounts reconciliation**	**C**	**C**	Scoring Method M2
(i)	Regularity of Bank reconciliations	B	B	Reconciliations of all Treasury-managed bank accounts is completed monthly within two weeks
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	D	D	Reconciliation and clearance of most advances takes longer than two months

Box 3.21: Ongoing Reform Activities

FMIS Phase I to be introduced in second half of 2015 will greatly facilitate recording and reporting at the GDNT.

PI-23 Availability of information on resources received by service delivery units

This indicator assesses the extent to which the PFM systems effectively support front-line service delivery (e.g. schools and primary health care centers) through providing information on transfer of resources to the units (in cash or in kind) vis-à-vis the budget estimates. The assessment covers the last three completed FYs.

Primary schools have a new system from 2015, by which they report to the Ministry of Education three times a year on resources received sub-divided by source (Government, NGOs and the community) and broken down between cash and in kind. Each school receives a School Improvement Grant based on its reported student enrolment. School books are distributed by the Ministry's Curriculum Development Department and their value is brought into the expenditure accounts. Before 2015, there were regular reports, but they were not comprehensive, omitting resources received from NGOs. Schools have notice boards on which they are supposed to enter budgets and actual expenditures every semester, but practice varies.

Health centers also have a new system started in 2015. Health centers report to their operational districts (ODs) and ODs report to their Provincial Health Departments, which in turn report to the Ministry of Health/Office of Health Information monthly on the revenue and expenditure. Before 2015, there were regular quarterly reports from each province on its health centers and hospitals. Apart from details of staffing, patient numbers classified by source of funding (Health Equity Fund, Health Card, fees, etc), etc. they contain details of revenue and expenditure, but only in aggregate, not by individual health center.

The dimension is scored D because there was no regular collection of data on resources received by individual schools or health centers, or special surveys covering cash and in-kind resources during the years 2012-2014.

Table 3.37: Score for PI-23

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-23	**Availability of information on resources received by service delivery units**	**C**	**D**	There has been no comprehensive collection of data on resources received by primary schools and health centers.

Box 3.22: Ongoing Reform Activities

Introduction of new reporting systems in both education and health in 2015.

PI-24 Quality and timeliness of in-year budget reports

This indicator assesses the ability to produce accurate and comprehensive reports from the accounting system on all aspects of the budget, at both the commitment and the payment stage. The assessment is based on the last completed FY, which is FY2014.

This indicator has three dimensions to assess quality and timeliness of in-year budget reports through assessment of (i) Scope of reports in terms of coverage and compatibility with budget estimates, (ii) Timeliness of the issue of reports, and (iii) Quality of information.

The ability to execute the budget requires timely and regular information on actual budget performance to be available both to the ministry of finance (and Cabinet), to monitor performance and if necessary to identify new actions to get the budget back on track, and to the LMs for managing the affairs for which they are accountable. The indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget. Coverage of expenditure at both the commitment and the payment stage is important for monitoring of budget implementation and utilization of funds released. Accounting for expenditure made from transfers to deconcentrated units within central government, such as provincial administrations, is included.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

MEF prepares various financial reports during the year:

The main in-year report is the TOFE (Table of State Financial Operations, as translated from the French). This is a monthly and annual comprehensive report on budget implementation, covering all of central government, both LMs and provincial administrations. These reports are derived from the KIT system. They are prepared by the Department of Budget Revenues and Expenditures under GDNT, from information supplied by other departments of MEF - such as GDT, GDCE and DIC - and the NBC. They are submitted to MEF senior management, and posted on the MEF website by GDEPFP.

The FAD produces a monthly report on the status of payment orders, broken down by chapter, submitted by LMs to GDNT for payment. Though this report shows outstanding payment orders, it does not show outstanding commitments and the liabilities relating to the period before payment orders are approved by LMs (see also under PI-4 (i)).

In addition, the Department of Provincial/Municipal Finance under GDSNAF prepares a monthly report onexpendituresand revenues relating to all provincial treasuries. These reports are based on the processed payment orders issued to provincial treasuries, which are reconciled with the reports of expenditure and revenues received from each of the Provincial Treasuries.

DIC produces monthly public investment expenditure reports, broken down by chapter, showing capital expenditure funded domestically, payment orders submitted to GDNT, and information on loans.

This indicator (all dimensions) is assessed on the TOFE reports, which are the most comprehensive in-year reports. They follow the budget classification by administrative organization and economic classification, but are based solely on payments, and do not include commitment data.

The dimension is rated C because the classification of data in the reports allows comparison with the budget for all main administrative entities, but only at the payment stage. A higher rating would require that information is also available on expenditure commitments.

(ii) Timeliness of the issue of reports

TOFE reports are now prepared and issued generally within four weeks of the end of each month. This has been made possible by the faster submission of reports from the Provincial Treasuries.

The dimension is scored A, because reports are prepared monthly and issued within two weeks of end of period.

(iii) Quality of information

Accounting reports omit substantial expenditure that is externally funded (see PI-7 (ii)).

As mentioned under PI-22, there is some delay in the classification of revenue, which slightly reduces reported revenue. There is also delay in clearing advances to expenditure, which slightly reduces reported expenditure (in a period in which advances increase). These issues are known, and do not materially affect the overall totals or compromise the usefulness or consistency of the accounts.

The dimension is rated C, because the overall usefulness of the reports is not compromised, even if externally-funded project expenditure is omitted and there are minor concerns about accuracy. A higher rating would require that data quality issues and omissions are highlighted explicitly in the reports or that there are no material concerns.

Table 3.38: Score for PI-24

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-24	**Quality and timeliness of in-year budget reports**	**C+**	**C+**	Scoring Method M1
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Classification allows comparison with the budget but only at the payment stage
(ii)	Timeliness of the issue of reports	B	A	Reports are prepared monthly and issued within four weeks
(iii)	Quality of information	C	C	Much externally-funded project expenditure is omitted and there are minor concerns about accuracy, but they do not compromise the overall usefulness of the reports

Box 3.23: Ongoing Reform Activities

The new chart of accounts (COA) is being applied in all accounting units and will contribute to improved classification and accuracy of accounts. It is understood that the same COA will be used in the public administrative entities.

PI-25 Quality and timeliness of annual financial statements

This indicator assesses the ability to prepare year-end financial statements in a timely manner. It analyzes the completeness and timeliness of annual financial statements and the accounting standards used to prepare them.

The assessment of the first dimension focuses on the last annual financial statement provided. The assessment of the second dimension focuses on the last annual financial statement submitted for audit (except for a "D" rating, where the critical period is three years). The assessment of the third dimension focuses on the last three years' financial statements.

The GDNT Accounting Department is responsible for preparing monthly trial balances and annual financial statements of the government. The monthly trial balance is the source of theTOFE in-year reports and the annual financial statements.

(i) Completeness of the financial statements

Article 113 of Sub-Decree No. 82, 1995, states that Budget Clearance Law or Budget Settlement Law (i.e. the annual government financial statements) shall be prepared annually by the Minister of Economy and Finance. The report includes general balances of the consolidated accounts, details of budget revenues, details of budget expenditures by LMs showing amount by chapter approved by respective ministers, and details of operations found in GDNT special accounts. The statement does not show financial assets (even bank account balances) nor liabilities.

The dimension is rated D because even bank balances are missing from the annual financial statements. A higher rating would require that bank balances are included with perhaps minor omissions.

(ii) Timeliness of submission of the financial statements

LMs and provinces are required to make their annual financial reports and submit them to GDNT, which is in charge of consolidation of financial reports. Provinces, which previously held up completion of annual statements, have become much timelier. End-of-year statements are sent within one month of the end of year. GDNT also verifies the statements from LMs, a manual process.

GDNT then consolidates LM and provincial statements and prepares a draft budget clearance law.This is submitted to the internal audit, Council of Ministers and NAA. The Law on Public Finance System does not give a deadline for MEF's submission of the Draft Law on Budget Execution.

A review of submission of budget clearance reports for 2011-2013, shows that delays are substantial as follows.

Table 3.39: Submission of financial statements to audit

Fiscal year	Submission date	Delay from end of year
2011	September 2012	8-9 months
2012	August 2013	7-8 month
2013	24 October2014	9-10months
2014	Not yet submitted as at July 2015	?

Source: GDNT and NAA

The reference period for this dimension is the last set of annual financial statements submitted for audit, which is for 2013. According to GDNT these statements were submitted to NAA in May 2014, which is five months after the end of the year. However, according to NAA they were submitted 24 October 2014, i.e. more than 9 months after year-end, which qualifies for a B rating.

(iii) Accounting standards used

GDNT uses modified cash basis of accounting and reporting. The intention is to meet the cash-based International Public Sector Accounting Standard (cash-IPSAS) for annual reporting, and some technical assistance has been provided by World Bank. The latest annual accounts (2013), however, do not appear to have yet changed to comply with IPSAS format, which requires a Statement of Cash Flows and Payments (including opening and closing cash balances), including also payments by external donors on behalf of RGC (which at present are budgeted but actual offshore flows are not brought to account), the consolidation of all autonomous administrative bodies that are part of central government under the GFS definition, original and supplementary budgets, and a statement of accounting policies and extensive explanatory notes.[52]

Statements are however presented in a consistent format over time with some disclosure of accounting standards (that the cash basis of accounting is used). The dimension is therefore rated C. A higher rating would require application of accounting standards that correspond to international standards.

Table 3.40: Score for PI-25

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-25	**Quality and timeliness of annual financial statements**	**D+**	**D+**	Scoring Method M1
(i)	Completeness of the financial statements	D	D	Essential information is missing from the financial statements
(ii)	Timeliness of submission of the financial statements	C	B	Financial statements for 2013 were submitted to NAA within ten months of the end of year
(iii)	Accounting standards used	D	C	Statements are prepared in consistent format over time with some disclosure of accounting standards

52 It is difficult to name a developing country that has yet fully met the standard, and IFAC is currently considering a further review of the cash-based IPSAS, which might reduce the mandatory requirements for compliance and make them "encouraged additional disclosures" instead. It should also be mentioned that the accrual-based IPSAS consists of a set of standards based on IFRS, and will take considerable years and professional capacity to achieve.

Box 3.24: Ongoing Reform Activities

With external assistance in the use and management of IPSAS system, GDNT officers have improved their understanding of the importance of the system.

The FMIS, which was under design since 2006, is now being implemented by the PFM Reform Program and GDNT's IT Department under a contract that started December 2013, funded by the World Bank. It is being piloted in 10 LMs. Two core modules, General Ledger and Budget Allocation, have been installed and went live on 20 July 2015. Thereafter, it is scheduled to be rolled out to all LMs during 2015, covering also provincial expenditure, and other modules added, including purchasing, accounts payable, accounts receivable and cash management. Initially the surrounding business processes will not be affected. All inputs will be entered centrally, but the system is web-based and in phase II it is intended that data entry will move to the LMs. Other IT systems will be interfaced, including DMFAS, HRMIS, NBC and the two commercial banks. A Government IT Strategy document is in zero draft.

3.6 External scrutiny and audit

PI-26 Scope, nature and follow-up of external audit

This indicator assesses the quality of the external audit which comprises the scope and coverage of the audit, adherence to appropriate audit standards (including independence of the external audit institutions), focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. The assessment covers external audit of the central government institutions including all LMs, provinces and autonomous administrative agencies. The assessment focuses on the last financial year audited.

In Cambodia, the supreme audit institution is the National Audit Authority (NAA). It is an autonomous agency set up and regulated by the Constitution and the Audit Act 2000. Though legally independent, the NAA has to "respect the financial system". It is still subject to budget scrutiny and cash releases by MEF, and some civil service controls by the Ministry of Civil Service, though it has its own terms and conditions of service for audit staff.

(i) Scope/nature of audit performed

The NAA has a Five-Year Plan 2012-2016 and an Annual Plan, which are prepared on a risk basis. According to the NAA'sSecretary General, the annual plan covers 50-60% of all ministries, with spot checks on the rest. Audit is carried out by some 170 audit staff, using the International Organization of Supreme Audit Institutions' Regularity Audit Manual and relevant International Standards of Supreme Audit Institutions' standards. The Performance Audit Manual has not yet been piloted on any performance audits in Cambodia. Some project financial audits and public enterprise audits are outsourced to professional audit firms. For lack of documentary evidence, this dimension could not be rated.

(ii) Timeliness of submission of audit reports to legislature

Audit reports are issued on each LM, province and project, about 80 per year. The dates when these were issued could not be obtained, but the main audit report is on the Budget Settlement

Statement (annual financial statements). This is issued first to the auditee, called Primary Report and similar to a Management Letter. The auditee responds to observations and the NAA then sends a Final Report, including recommendations. The dates of receipt of Budget Settlement Statements and issue of primary and final audit reports are shown in the table below.

Table 3.41: Timeliness of audit of the annual financial statement for FY2013

Year	Date of receipt of Budget Settlement Statement	Date of issue of Primary Report to Auditee	Date of Issue of Final Report to the Legislature
2013	24 October 2014[53]	12 November 2014	6 February 2015

From the above table, it can be seen that the primary report ofthe last audit completed (for FY2013) was presented to the auditee within a month of receipt of the statement. Submission of the final audit report to the National Assembly was made within 4 months of receipt of the Budget Settlement Statement. This qualifies for an A score.

(iii) Evidence of follow up on audit recommendations

The NAA audit team presents the findings of each audit at an exit meeting. The findings are incorporated into a primary audit report to the auditee, who has 28 days to comment. Comments are considered by the NAA and the final report, with recommendations, is prepared. This is sent to Parliament, with copy to the auditee so that appropriate corrective actions can be taken.

The NAA checks management response to recommendations at the next year's audit. According to the NAA, almost all recommendations are implemented, though written evidence could not be obtained

Table 3.42: Score for PI-26

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-26	**Scope, nature and follow-up of external audit**	**D+**	**NR**	Scoring Method M1
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	D	NR	50-60% of total expenditure is said to be covered, but documentary evidence could not be obtained
(ii)	Timeliness of submission of audit reports to the legislature	C	A	Audit report submitted to the legislature within 4 months of receipt of the Budget Settlement Statement.
(iii)	Evidence of follow-up on audit recommendations	C	C	A formal response is made but the evidence of systematic follow up is lacking.

53 Ref. PI-25 (ii).

Box 3.25: Ongoing Reform Activities

At the 2014 Annual Retreat on the PFM Reform Program, the Prime Minister said that the NAA must publicize annual audit reports in order to be more transparent.

PI-27 Legislative scrutiny of the annual budget law

This indicator assesses the legislative scrutiny and debate of the annual budget law based on such factors as scope of the scrutiny, the internal procedures for scrutiny and debate and the time allotted for that process. Adequacy of the budget documentation made available to the legislature is covered by PI-6. The assessment focuses on the last completed FY.

The legislature has two chambers, the National Assembly and the Senate. The draft budget law is submitted first to the National Assembly. When the National Assembly has reviewed and approved the draft law, the National Assembly sends it to the Senate for approval.

(i) Scope of the legislature's scrutiny

The legislature receives the draft budget law only when the details of revenue and expenditure have been finalized by the RGC. The legislature is not involved in any setting of long or medium-term priorities or fiscal policy. This is covered in the NSDP and other policy documents, which belong to the RGC's strategy and are not subject to approval by the legislature.

In reviewing the draft budget law, the National Assembly can draw on an expert attached to the 2nd Commission and to the technical expertise of the Center for Legal Research, which is a unit within the National Assembly.

The National Assembly can propose changes and corrections to the draft law and does so. However, no substantial changes to the draft have been made in recent years.

This dimension is scored C because the legislature reviews details of expenditure and revenue at the stage where detailed proposals have been finalized by the government. A higher score would require that the legislature also reviews fiscal policies and estimated aggregates for the coming year ahead of the finalization of the detailed estimates.

(ii) Extent to which the legislature's procedures are well-established and respected

When the National Assembly has received the draft budget law from MEF, its general secretariat forwards it to the 2nd Commission on Economy, Finance, Banking and Audit. The 2nd Commission has nine members of which five are from the ruling CPP (including the commission chairman and the secretary), whereas the opposition CNRP has four members (including the commission vice-chair).[54] The Commission in turn assigns various relevant committees to review selected parts of the draft law. Decisions on the draft in committees and the 2nd Commission are taken by simple majority; voting by raising hands. These committees arrange internal meetings and occasionally workshops. Following review and clarifications by the select committees, the draft law is sent to the

[54] This distribution corresponds to the distribution of the members in the National Assembly: 68 CPP representatives and 55 CNRP representatives.

Standing Committee of the National Assembly which decides if the law is ready to place on the agenda of the Plenary. When the plenary of the National Assembly has adopted the draft law it is sent to the Senate which follows its own similar but separate procedures. There is no indication that these procedures are not respected.

The dimension is rated B because simple procedures for the legislature's review and approval exist and are respected. A higher score would require that the internal review procedures are further developed.

(iii) Adequacy of time for the legislature to provide a response to budget proposals

According to the official budget calendar – ref. PI-11 dim(i) – the legislature has approximately seven weeks from receipt of the draft budget law from MEF until the law has to be passed. In practice, the time taken for this process has taken 3 and 6 weeks[55] for the FY2014 and FY2015 budgets respectively to review the draft and pass the budget law.

The dimension is scored C because the legislature has more than one month available for its review and approval. Note that there is no difference in the scoring requirements for B and C scores[56]. An A score requires that the legislature has at least two months to review the draft and pass the budget law.

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

Articles 55 through 62 of the Law on Public Finance of 2008 establish the procedures for amendment of the approved budget. Amendments follow the same procedures as approval of the original budget. In principle, any transfer of appropriations from one budget entity to another requires legislative approval. Also, transfers of appropriations within a budget entity from capital/investment expenditure to recurrent expenditure require legislative approval. However, certain circumstances allow the RGC to make such re-allocations e.g. natural disasters and national emergencies as well as transfers that keep expenditure within the same expenditure item and economic chapter as long as it 'strengthens the structure or administration of the government'. All other re-allocation may be made by the Minister of MEF by sub-decree including re-allocation of appropriations under 'unexpected expenditures' i.e. contingencies. Excess revenue shall be carried forward to the next year unless it is otherwise allocated by amendment to the Budget Law (ref. Law on Public Finance 2008 article 33 point 2).

The dimension is scored B because rules for in-year budget amendments without prior legislative approval are relatively clear and respected, and do not allow for expansion of the overall amount of expenditure (even in case of excess revenue collection). A higher score would require that the rules also set strict limits on the extent and nature of budget amendments.

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55 These periods were estimated by extracting submission and receipt dates on various budget documents exchanged by the MEF, National Assembly, Senate and Royal Palace.

56 Dimension (iii) has the same Framework requirements for scores of B and C. The score is then decided according to the other dimensions, per Field Guide clarification 27-b. This results in a C score.

Table 3.43: Score for PI-27

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-27	**Legislative scrutiny of the annual budget law**	**NU**	**C+**	Scoring MethodM1
(i)	Scope of the legislature's scrutiny	NU	C	The legislature's review covers details of expenditure and revenue at the stage where detailed proposals have been finalized by the government.
(ii)	Extent to which the legislature's procedures are well established and respected	NU	B	Simple procedures for the legislature's review and approval exist and are respected.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	NU	C	The period available for the legislature's review and approval is about 7 weeks. In practice, the legislature has taken less time to review the draft and pass the budget law.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	NU	B	Rules for in-year budget amendments without prior legislative approval are relatively clear and respected, but allow for significant reallocations, though not for expansion of the overall amount of expenditure (even in case of excess revenue collection).

Box 3.26: Ongoing Reform Activities

No ongoing reforms identified

PI-28 Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors (ref. PI-26).

The focus in this indicator is on central government entities, including autonomous agencies to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling ministry/department must answer questions and take action on the agencies' behalf. The assessment of the first dimension is based on the audit reports submitted to legislature within the last three years, while the assessment of the other dimensions is based on the last 12 months.

The Commission on Economics, Finance, Banking and Audit (known as the Second Commission) has a post-audit scrutiny function as well as the budget review function described under PI-27 above.

The Second Commission has nine members of whom the Chair and four others are from the ruling party, and the Vice Chair and three others must be from opposition parties. Discussion and decision-making is mainly by consensus, but on contentious issues the chair may ask for a show of hands (majority vote).

(i) Timeliness of examination of audit reports by the legislature

The Audit Law does not state any deadline for NAA to submit its reports, nor is there any legal deadline for the Second Commission to complete its scrutiny. The Second Commission holds regular meetings, though dates are flexible, The table below shows the dates on which audit reports on the annual budget settlement reports (consolidated financial statements) were received during the last three years and the dates when the National Assembly passed the Budget Settlement Law, as an approximation to the dates the Second Commission submitted its own reports to the Standing Committee of the National Assembly and the Senate.

Table 3.44: Timeliness of examination of audit reports

Financial year audited	Date of receipt of NAA report*	Date the National Assembly passed the accounts for the year	Time to complete legislative scrutiny
2011	27 December 2012	25 January 2013	< 1 month
2012	21 January 2014	1 April 2014	2½ months
2013	16 February 2015*	29 June 2015	4½ months

** This differs from the date 6 February 2015 given by the NAA under PI-26 (ii).This difference does not affect the score.*

The time required for legislative scrutiny has increased to 4½ months for the last year audited. The requirement for an A score is that the time does not exceed 3 months in any of the last 3 years. This merits a B score because the delay is less than 6 months, but more than 3 months.

(ii) Extent of hearings on key findings undertaken by the legislature

Hearings are attended by the responsible officers from the auditee organizations and by representatives of the NAA and MEF. The hearings do not necessarily cover all auditees on whom comments have been made by the NAA. Meetings are closed to the public, but post-hearing briefings may be given by the Chair to media representatives on matters of wide interest. The Second Commission has secretarial support, but little technical support. There is no Budget Office able to carry out research on behalf of Commission members.

This dimension is rated B becausein-depth hearings take place with responsible officers from some audited entities. A higher score would require that the hearings cover responsible officers from most of the audited entities that had audit issues.

(iii) Issuance of recommended actions by the legislature and implementation by the executive

The Second Commission makes its own recommendations, which are followed up at the next hearing with the respective auditee. Some are implemented, some are not. It was not possible to get any quantitative assessment of the share of recommendations that are implemented.

The dimension is scored B because the legislature makes recommendations to the executive, some of which are implemented. A higher score would require that all of the recommendations are responded to and generally implemented.

Table 3.45: Score for PI-28

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
PI-28	**Legislative scrutiny of external audit reports**	**NR**	**B**	Scoring Method M1
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	NR	B	Audit reports are examined and legislative scrutiny completed within six months of receipt of audit reports
(ii)	Extent of hearings on key findings undertaken by legislature	NR	B	In-depth hearings take place with responsible officers from the audited entities, but not necessarily all audited entities
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	NR	B	Actions are recommended to the executive, some of which are implemented.

Box 3.27: Ongoing Reform Activities

None reported.

3.7 Donor practices

Donor funded expenditure in Cambodia comprises a very significant part of financial resources available to finance public expenditure. As reported in Table 3.46 below, it comprised over 50% of total government expenditure till 2012, and is currently around 43%. Some 35-40 development partners operate in Cambodia including international financial institutions, multi-lateral and bi-lateral agencies, as well as a large number of NGOs, ref. annex 5, table 5.4. The largest donors are China (26% of the total), Japan and ADB (each 9-10%), USA, Australia, World Bank and EC (each 3-6%), which jointly account for more than half of the external assistance. The information is considered significantly complete, even though it is noted that a few donors do not report all assistance provided (notably China and USA).

Table 3.46: RGC and donor disbursements 2010-2014(USD million)

Year	Total RGC Expenditures (1)	Donor Disbursements (2)	Donor Disb.(2) as % of RCG Exp.(1)
2011	2,375	1,423	59.9%
2012	2,690	1,499	55.7%
2013	2,981	1,451	48.7%
2014	3,416	1,472	43.1%

Source: Budget Department, MEF

D-1 Predictability of Direct Budget Support

This indicator assesses the predictability of inflows of budget support (BS). The assessment of the first dimension is based on forecasts provided but the donor agencies rather than budgeted donor support, while the assessment of the second dimension is based on the quarterly distribution of actual BS inflows compared to the agreed distribution plan. The assessment focuses on the last three FYs.

(i) Deviation of actual budget support from the forecasts

Donors provided annual disbursement forecasts during the period assessed, through the CDC database reporting system. Disbursements deviated widely from forecasts, and are generally significantly lower than estimates in the recent past, as Table 3.47 below indicates. BS was provided to RGC in FYs 2012-2014 by the EC and ADB only, as other donors (such as WB) discontinued BS around 2011. Consequently the overall amounts of BS both planned and disbursed have decreased significantly. The BS from EC and ADB comprises sector BS only with EC on focusing the education sector whereas ADB supported policy reform in a wider range of sectors.

This dimension is scored D because actual BS disbursements fell short of the planned amounts by more than 15% in two of last the three years (2012-2014) – 67% and 64% respectively.

Table 3.47: Predicted and Actual Receipts of budget support 2011-2014(mill. USD)

Type of assistance	2011		2012		2013		2014	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Grants	42.2	46.4	11.4	8.9	20.8	0.0	38.8	22.1
Loans	35.4	61.9	60.9	14.7	59.0	82.2	22.0	0.0
TOTAL	**77.6**	**108.3**	**72.3**	**23.6**	**79.8**	**82.2**	**60.8**	**22.1**
Deviation from Plan		+40%		-67%		+3%		-64%

Source: Budget Division; ODA Data Base, April 2015and information from ADB[57]

[57] BS from the EC is classified as such in the ODA database by the CDC whereas BS from ADB constitutes a component of hybrid aid operations blending investment lending, technical assistance and policy based budget support. ADB data on BS commitments and disbursement were therefore added to the official BS data from the ODA Database, with ABD commitments reflecting forecasts due to the single-tranche nature of ADB's BS operations. However, the addition of ADB data does not make any difference to the score, which in any case is 'D'.

(ii) In-year timeliness of donor disbursements

Donors do not provide quarterly disbursements estimates on BS. The dimension is therefore scored D.

Table 3.48: Score for D-1

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
D-1	**Predictability of Direct Budget Support**	**C**	**D**	Scoring Method M1
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	C	D	In the last 3 years (2012-2014) actual BS disbursements fell short of the planned amounts in two years by 67 and 64% respectively i.e. by more than 15% in two of the three years.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NU	D	No quarterly disbursement forecasts are being provided.

Box 3.28: Ongoing Reform Activities

No ongoing reforms identified

D-2 Financial information provided by donors for budgeting and reporting on project and program aid'

This indicator assesses theinformation provided by donorson their support for programs and projects (including aid-in-kind) in respect to the provision of accurate and timely estimates of available funds for inclusion in the budget proposal and reporting on actual donor flows. The assessment is based on qualitative data for the five major donors providing project support and focuses on the last completed FY.

(i) Completeness and timeliness of budget estimates by donors for project support

Practically all donors (including all of the major ones) provide annual estimates of disbursement by project to the CDC database. The reporting takes place in March-April each year and provide estimates for the coming two years i.e. the data collected by CDC in March-April 2014 included forecasts for 2014 and 2015, ref. the CDC report on Development Cooperation Trends issued in July 2014. This data is broken down only by name of project and nature of assistance (6 categories) but does not follow the government's budget classification.

The dimension is scored C because practically all donors provide annual estimates of disbursements well in advance of the government's annual budget preparation. Omissions by China and USA concern mainly aid-inkind and are not considered sufficiently important to reduce the score. A higher score would require that the information also follow the government's budget classification system.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

Donors also provide data on actual disbursements on an annual basis and within 3-4 months of the end of the year. Many also provide data on a six-monthly basis as per CDC procedures for updating the database. However, quarterly reporting is not undertaken. The data is broken down only by name of project and nature of assistance (6 categories) but does not follow the government's budget classification.

This dimension is scored D because only few donors provide quarterly data on actual disbursements, although they do on an annual basis. A higher score would require that the majority of disbursements of externally funded projects be reported quarterly.

Table 3.49: Score for D-2

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**D**	**D+**	Scoring Method M1
(i)	Completeness and timeliness of budget estimates by donors for project support	D	C	Practically all donors provide annual estimates of disbursements well in advance of the government's annual budget preparation. The information does not follow the government's budget classification system.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	D	Whilst practically all donors provide annual data on actual disbursements, there is no reporting on a quarterly basis and the information is not provided in a format consistent with the government's budget classification system.

Box 3.29: Ongoing Reform Activities

No ongoing reforms reported

D-3 Proportion of aid that is managed by use of national procedures

This indicator assesses the use of national procedures (i.e. procurement, payment/accounting, audit, disbursementand reporting) by the donor funds. Budget Support by definition makes use of national procedures. The assessment focuses on the last completed FY.

Use by donors of national government procedures gives an incentive and help governments to focus in improving country procedures. This indicator assesses the overall proportion of aid funds to CG managed through national procedures as an average of the proportion of donor funds that use national systems for each of the four areas of: (i) procurement, (ii) payment/ accounting, (iii) audit, and (iv) reporting respectively.

Donor agencies do not normally channel their assistance through the Government's financial management systems and the amount of budget support - which by definition uses all aspects of the government's systems – has decreased in recent years. Nevertheless, some donors use various aspects of the government's systems. Data from the GDB shows use of country systems by type of system for 2014 as indicated in the table 3.50 below. This information indicates that less than 30% of aid funds were managed through it in 2014 with an overall average of about 25% but was based on the total value of multilateral disbursements using national procedures only.

Table 3.50: Use of country systems by multi-lateral donors in 2014

Percentage of all donor funds that:	Fiscal year 2014
Use national procurement procedures	20%
Use national payment /accounting procedures	28%
Use national audit procedures	27%
Use national reporting procedures	26%

Source: MEF Budget Department

Data covering use of country systems for all donors is available from CDC for 2013[58] based on the 'Busan monitoring survey results' which shows an overall average of 32% use of the government's PFM and procurement systems i.e. higher than the estimate for multi-lateral donors in table 3.50. A tentatively estimated average for 2014 – based on the ODA database - is 24.7%[59].

The dimension is scored D because the overall use of country systems is below the 50% required for a C score.

Table 3.51: Score for D-3

PI	Dimension	Score 2010	Score 2015	Justification for 2015 score
D-3	**Overall proportion of aid funds to central government that are managed through national procedures**	**D**	**D**	The overall use of country systems is in the order of 25%-30% i.e. well below the 50% required for a C score.

Box 3.30: Ongoing Reform Activities

Performance on this indicator may improve further in the coming years as donors may show increasing interest in using country systems for payment, accounting and reporting, when a reliable and timely FMIS is in place. The FMIS is currently being installed. Also technical assistance in the areas of procurement and auditing may eventually lead to donor reliance on these systems although this is likely to be a longer term development.

58 CDC Development Cooperation Trends in Cambodia July 2014 Table 5.

59 Estimate dated 26th December 2014 and based on extract from the ODA Database.

4. Performance Change since 2010

4.1 Overview of Results of the 2010 PEFA Report

The findings of the 2010 PEFA Assessment Report are summarized below under each of the core PFM dimensions. The scores for each indicator and its dimensions are shown in Annex 1.

Budget credibility strengthened through greater predictability of revenues (PI-3 scores A) – partly due to a conservative approach to revenue forecasting – and reasonably good expenditure control (the aggregate expenditure indicator PI-1 scored B); this enabled the virtual elimination of payments arrears (PI-4, dim(i), scored A). Elimination of payments arrears provides greater certainty of payment to potential suppliers of goods and services to government and improves the predictability to budget entities of future budgets. In terms of the composition of budget spending (PI-2), predictability for each budget entity is low, with the variance in expenditure composition exceeding aggregate deviation by ten percent in two of the last three years, partly reflecting allocations from the budgeted unallocated reserve/contingency item. Credibility has, however, tended to be higher for priority sectors (education, health and agriculture).

Comprehensiveness of the budget: The C score under PI-7 indicates a significant extent of unreported extra-budgetary operations. Possible non-declaration of non-tax revenues and unauthorized opening of bank accounts are the main examples. The intransparency of many donor-funded projects, particularly grant-funded projects (represented also by D scored under D2-D3) also potentially erodes budget credibility, because: (i) the incentives of staff in line ministries with PIUs to perceive the government budget as the main vehicle for funding service delivery are diminished; (ii) capable staff are induced to join PIUs because of higher salaries than in the civil service, thus reducing overall capability to prepare credible budgets; and (iii) the intransparency of the operations of these projects hinders the accurate budgeting for the recurrent cost implications of these projects.

The C score for PI-10 indicates the public has insufficient information on budget plans and budget execution. While the public may be benefiting from the predictable provision of public services, its ability to demand accountability for the efficient use of public funds in the delivery of these services is impeded.

In **Policy-based Budgeting**, robust budget preparation procedures (PI-11), the introduction of Budget Strategic Plans (BSPs) with a medium term focus, and costed sector strategies (PI-12) for education and health have contributed to budget credibility. The procedures allow for the continued provision of funding at current levels of service plus bidding for funding for extra services according to government priorities (perhaps revised at the beginning of the new budget preparation cycle). The main weakness is the insufficient integration of capital and recurrent expenditures, contributing towards C scores for PI-12 dim(i) and PI-12 dim(iv). Stronger linkages between the current and capital budgets for both the following year and over the medium term would strengthen the credibility of the budget over the medium term: the chances of sufficient financial resources being budgeted for the provision of projected required service levels over the medium term would be enhanced (e.g. new classrooms built consistent with student enrolment projections and the operating costs of these appropriately budgeted for). Insufficient provision of such resources would reduce the credibility of the budget.

Predictability and Control in Budget Execution: On the revenue side revenue administration, though still in need of considerable improvement (PIs 13-15 scored C on average), may have contributed to budget credibility, particularly through greater transparency of tax payer obligations and liabilities, greater effectiveness of tax registration and assessment (e.g. introduction of IT-based systems and strengthened auditing) and speedier deposit of revenues into the Treasury Single Account. The main challenges are: (i) compliance issues regarding tax registration, declaration and collection; and (ii) internal control issues. Non-compliance with tax laws and obligations (e.g. through smuggling), reduces the amount of revenue available to fund public services. If sufficient financial resources are not available to finance required service levels, the credibility of the budget would be affected.

On the expenditure side, robust controls are needed to minimize financial wastage in terms of the payroll and purchases of non-wage inputs (PIs 18-21, the scores for which were in the C and D range). When more public expenditure management responsibilities are devolved to line ministries and sub-national governments and internal control systems correspondingly developed in line ministries, the role of the internal audit function will become more prominent.The large size of the Reserve that comprises part of the budget (it is over 10 percent of budgeted expenditure) and the way it is allocated during the year also introduces intransparency (as well as unpredictability) into the budget (as measured under PI-16 dimension iii).

However, the in-year predictability of funding (PI-16) has also contributed to budget credibility, enabled by the quarterly cash flow management framework, as has streamlining of commitments and payments processes, and the establishment and gradual expansion of the Treasury Single Account concomitantly with the closure of several bank accounts (enabling a greater pool of liquid financial resources available for financing budget execution, PI-17).

In the area of **accounting, recording and reporting** the indicators PI-22 through PI-25 generally scored in the C and D range partly because the emphasis under Stage 1 of PFMRP was on strengthening the predictability of resources for funding services. Achieving better financial accountability (and thus higher scores) is the main goal of Stage 2 of PFMRP. In itself, this would strengthen the credibility of the budget, as stakeholders would be better able to see if financial resources have been used efficiently for their intended purpose.

In the area of **external scrutiny and audit,** indicator PI-26 scores low, indicating that the external audit function is not playing a strong role in holding the executive branch of government to account. NAA does not publish its reports, so the public has no way of knowing whether public funds are being spent according to their intended purpose. The assessment team was unable to meet with the Second Commission in the National Assembly, but it appears that its role in demanding financial accountability is also limited.

The impact of **donor practices**, as measured by indicators D-2 and D-3, is discussed under comprehensiveness and transparency above. Indicator D-1 (predictability of budget support) scored C, but the impact on budget credibility is limited, as budget support represents only a small proportion of the total resources available for financing the budget.

4.2 Overview of Results of the 2015 Assessment

Budget credibility (PI-1 to PI-4) has remained strong as regards budget outturns at the aggregate level for both domestic revenue and domestically financed expenditure (PI-3 and PI-1). Performance in this respect was already good in 2010 but has improved further. These results have not been affected by externally financed expenditure despite poor predictability of budget support as budget support is a minor part of budget financing (D-1); whilst external project funding has generally met the budgeted amount in aggregate.

On the other hand, budget credibility has deteriorated as regards the intended strategic allocation of resources to the main budget entities, despite already showing significant weakness in 2010 (PI-2). It is also a concern that expenditure arrears are high and that the systems to monitor arrears are incomplete, so that the overall level of arrears and its developments from year to year are not known (PI-4).

Comprehensiveness and transparency of the budget (PI-5 to PI-10) generally score in the C to D range, with the exception of systems related to central government's interaction with sub-national administration at the commune/sangkat level which performs much better. Comprehensiveness of the budget is still undermined by significant elements of government operations not being adequately reflected in the key fiscal reports of government – mainly as regards the operations of public administrative entities and externally funded projects (PI-7 scoring C in both years). The budget and accounts classification systems remain essentially at the basic level covering administrative and economic classification only, despite considerable efforts to add functional and program classification – as these new parts of the classification have yet to be fully developed and rolled out across budget entities (PI-5 scoring C in both years).

Meanwhile, slippage in performance has been found as regards budget transparency. Key information in the budget plan submitted to the legislature (and publicized after legislative approval) has been reduced (the score of PI-6 dropping from B in 2010 to C now) and the access of the public at large to key fiscal information has also dropped (the score of PI-10 reduced from C in 2010 to D now) due to longer delays in making the requisite information available, despite the reports being produced timely for internal use, ref. PI-24 dim(ii), PI-25 dim(ii) and PI-26 dim(ii) below.

Transparency and predictability in the intergovernmental relations between central government and communes/sangkats remain high as transfers to communes and sangkats are rules based and the indicative transfer estimates are provided well on time and are reliable (PI-8 dim(i) and dim(ii) both score A). Also the oversight of the fiscal operations of communes/sangkat ensure that central government does not face fiscal risks from those entities (PI-9 dim(ii) scores A). Yet, central government is unable to report strategic allocation to sectors or program at the aggregate level of general government as classification systems are different at central government and sub-national administrative levels and neither one includes comprehensive functional or sector classification (PI-8 dim(iii) scores D). Monitoring of fiscal risk from commercial public enterprises has also remained weak (PI-9 dim(i) scored C in both years) as no overview of fiscal risks is prepared and reported, an issue worsened by lack of ceilings for issue of guarantees by the government (ref. PI-17 dim(iii)).

Policy-based budgeting (PI-11 to PI-12) showed strong performance in the process of preparing the annual budget, a process which is comprehensive, organized in several distinct stages with appropriate involvement of both the top political level and the individual line ministries, and it is timely completed every year. This good performance has been maintained since 2010 (PI-11 scoring A in both years). However, the medium-term aspects of policy-based budgeting are performing less well and little progress has been noted since 2010. This makes it difficult to sustain support to policy priorities in the medium to long term. Sector strategies with full costing in line with fiscal aggregates are still the exception (PI-12 dim (iii)), and budgeting of recurrent and capital project expenditure remain separate processes with weak links (PI-12 dim(iv) scored C in both years). Whilst a medium term budget framework is prepared annually, the links between the estimates from one year to the next are weak (PI-12 dim(i) scored C in both years). An exception is the analysis of debt sustainability, which has remained strong (PI-12 dim(ii) scoring A in both years) and where the government has enhanced its internal capacity to undertake the analysis annually.

Predictability and control in budget execution (PI-13 to PI-21): All of the nine indicators in this area score low i.e. in the C to D range, although particular aspects of the many of the indicators perform better (selected dimensions scoring B). On the side of revenue administration little appears to have changed since 2010. The law on taxation has a number of gaps, provides the administration with extensive discretion and the provision for an independent appeals tribunal has not been implemented. Efforts are being made to give taxpayers access to relevant information but human and financial capacity contracts mean that the information is not always comprehensive and up to date (PI-13). Ensuring compliance with tax registration and filing is made difficult by lack of proactive approaches to capturing all businesses by the taxnet, by inadequate levels and enforcement of penalties for non-compliance as well as an approach to taxpayer audits audits that re not sufficiently risk based (PI-14). Tax collection could also be improved significantly. Tax arrears remain high despite slight improvements in collection rates, and monitoring is hampered by full reconciliation of collections with tax assessments and arrears taking place only on an annual basis. However, the revenue float remains low as collections are transferred to the national treasury with little delay (PI-15).

Cash flow forecasting is performing well and has improved in recent years, ensuring that line ministries and other budget entities are able to plan their expenditure commitments at least quarterly in advance (PI-16 dim(i) and dim(ii)), but in-year reallocations of budget appropriations are frequent and significant (PI-16 dim(iii)) as a result of the extensive powers of the minister (ref. PI-27 dim(iv) below) and can lead to outturns quite different from the budgeted allocations, ref. PI-2 on strategic budget credibility above. Debt management systems are fair, but of minor importance due to the relatively low level of government debt. Consolidation of cash balances performs well as a result of the TSA (PI-17) and has not changed since 2010. Procurement is not transparent and no independent procurement review body has been established. Monitoring of compliance with procurement regulations is hampered by lack of data (PI-19). Internal controls suffer from a number of weaknesses. In the area of staff salaries (PI-18), personnel and payroll data is not directly linked and comprehensive payroll audits are not conducted. Moreover, payroll changes are often delayed and result in payment arrears, ref. also PI-4 above). Internal controls of non-salary expenditure are not comprehensive and audit reports indicate frequent non-compliance with the rules (PI-20). The internal audit function is still in its infancy, but a positive development is more attention to systemic issues by the internal audit units, rather than transaction based audits (PI-21).

Accounting, recording and reporting: The four performance indicators in this area (PI-22 to PI-25) generally scored low, in the C to D range, but positive developments are noted for several aspects of the indicators. Bank reconciliations continue to be done comprehensively and timely (PI-22 dim(i) scoring B in both years) and the timeliness of preparing the in-year budget execution reports (TOFE reports) has improved (PI-24 dim(ii)). In particular, the preparation of annual financial statements has seen distinct improvements in both timeliness and disclosure of accounting standards.

External scrutiny and audit: Institutional coverage of external audit and adherence to international audit standards remain low (PI-26 dim(i) could not be scored and dim(iii) scored C in 2015), but timeliness in completed audit of the annual financial statements improved significantly (PI-26 dim(ii) going from C in 2010 to now A).

The oversight functions of the national legislature performed generally well at B score level (PI-27 and PI-28) although the involvement of the legislature in the budget process is limited due to review of the budget plan at the stage where all details have already been prepared by the government and extensive powers of the minister for economy and finance to reallocate funds without prior legislative approval (PI-27 dim(i) and dim(iv)). It is not possible to judge change since 2010 as the two indicators on legislative oversight were not assessed in 2010.

Donor practices: Indicators on donor practices continued to score low with all three indicators scoring in the D range. Predictability of budget support has deteriorated (D-1 scored C in 2010 and now D), but the importance of budget support has also declined so the impact of this deterioration is very modest. Improvements have been made in reporting on project support through the CDC database (D-2) both for budgeting purposes and ex-post reporting on actual disbursements. However, ex-post reporting is still too fragmented and late to allow full coverage in budget execution reports. Use of country systems remains low (D-3 scoring D in both years) but hides a significant improvement from a level of 12-15% in 2010 to now about 25% of all external assistance - even if this insufficient to increase the score.

4.3 Summary of performance changes since 2010

Annex 1 compares the performance indicator scores of the current assessment with the scores from the 2010 report at both indicator and indicator dimension levels. For each indicator and dimension the right-hand column discusses whether it is meaningful to directly compare the scores of the two assessments and any change in performance evidenced by the 2015 assessment.

A comparison is not useful for 12 of the 31 indicators, whilst for 2 other indicators (PI-27 and 28) there were no scores in 2010 to compare with. The reasons for non-comparability are (a) that the indicator structure and/or scoring criteria for three indicators were changed by the PEFA Program in 2011 (PI-2, PI-3 and PI-19), or (b) that the 2010 scores were not established on the same basis as the current scores due to either lack of data in 2010 or a different interpretation of the data requirements and their implications for the scores.

Nevertheless, for ten of those fourteen indicators it is deemed possible to gauge the direction of change. It should be noted, that change in performance of individual dimensions of an indicator may have taken place since the 2010 report without a corresponding change in the overall indicator score. On that basis, an indication of direction of change is shown in the right-most column of the table and may imply that fundamental weaknesses remain in the indicator's subject despite improvement in other aspects.

Improvement in performance is indicated for 7 government indicators, whereas performance slippage is found for another 3 indicators. Performance change has not been possible to gauge for 4 government indicators, and the remaining 14 performance indicators do not shown any significant change in either direction. At the indicator dimension level and covering only the 28 government performance indicators, 11 dimensions showed improved performance, though for 3 of those the improvement was insufficient to increase the score. Declining performance was noted for three dimensions, whereas no change in performance could be identified for 39 dimensions. Performance comparison was not possible for 18 dimensions.

The performance improvements are found mainly in the indicators that support aggregate fiscal discipline (PI-1, PI-3 and PI-16) and those related to monitoring and reporting of budget execution (PI-21, PI-24, PI-25 and PI-26).

Performance slippage is found mainly in the indicators that affect strategic allocation of resources and related transparency (PI-2, PI-6 and PI-10). Some drops in performance ratings appear to be the result of minor performance slippage, which may be easy to rectify, e.g. in timeliness of publishing in-year budget execution reports (PI-10).

5. Evolution of Government PFM Reforms

5.1 Progress and Next Steps of PFM Reforms

Budget credibility is an outcome of the PFMRP implementation that may not be achieved unless five essential components are strengthened and implemented with effectiveness and efficiency such as

(1) Comprehensiveness and transparency: the budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.

(2) Policy-based budgeting: the budget is prepared with due regard to government policy accordance with calendar budgeting of public financial law, budget strategic plans 3-year rolling, particularly policy objectives, program/sub-program, and activities are consistency with National Strategy Development Plan and Government Rectangular Strategy,

(3) Predictability and control in budget execution: the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.

(4) Accounting, recording and reporting: adequate records to align with IPSAS and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

(5) External scrutiny and audit: arrangements for scrutiny of public finances and follow-up by the executive are operating. The roles of oversight institutions and external audit are effective for transparency and accountability of budget execution and performance of budget entities.

Meanwhile, during 10 years of PFMRP implementation, Cambodia has achieved:

Platform 1 (2004-2008)

- The result of revenue collection implementation is close to approval budget
- Eliminated cash shortage
- Since 2007 eliminated payment orders outstanding over 90 days
- Consolidated government's accounts and implementation of Treasury Single Account (TSA)
- Improve of budget preparation
- New public financial system
- New economic classification
- Implemented BSPs in 2008
- Program budgeting (7 ministries were piloted in 2008)
- Debt management
- Financial Decentralization.

Platform 2 (2009-2015)

- Consolidated TSA (there is no government's accounts that open without permission)

- 36 LMs received salary via banking system
- Improved procurement – the Law on Procurement was launched in 2012, sub-decree and prakas were prepared and implemented and other legal letters are being prepared)
- Revenue collection agencies have transferred through banking system
- Launched to implement Medium-Term Revenue Mobilization 2014-2018
- Prepared Debt Management Strategy and implement debt management system and financial analysis as well as preparation of legal frameworks for debt management.
- Launched FMIS go-live in July 2015
- Prepared new CoA from 4 digits to 5 digits
- Disseminated essential information such as TOFE and budget in brief to public through website of MEF and public forum.
- 10 LMs implemented full program budgeting
- LMs established internal audit.

The next steps of the PFM reforms will include:

- Strengthening to implement revenue-expenditure program
- Prepare classification of functional of government (COFOG)
- Prepare and implement of action plan to launch FMIS phase 2
- Strengthen decentralization and sub-national administrations are prepared BSPs
- Implement full program budgeting both national and sub-national level
- Amendment public financial law 2008 as well as sub-decree 81 and 82
- Strengthen capacity to analyze and macroeconomic forecast
- Strengthen monitoring and evaluation implementation Medium-Term Revenue Mobilization Strategy 2014-2018
- Medium-term of budget framework is approved by Council of Minister
- Integration of current and capital expenditure as well as development partners' fund
- Prepare motoring and evaluation budget system and performance management system
- Improve accountability of LMs through strengthening function of internal audit and external audit.

5.2 Related Administrative Reforms

5.2.1 *Public Administrative Reform*

Good governance is explicitly highlighted in the RGC's Rectangular Strategy, thus the Public Administrative Reform Program (PARP) is a core activity to achieve the goals and objectives of RGC. The common objective of PARP is to serve people and promote livelihood, as well as for the whole nation to thrive. At the same time, PARP also highly concentrates on the improvement of quality and timeliness of public service delivery to the people. Public administration reform is a crucial strategy for the future development of the country, through preservation of peace, political stability and social justice, sustainable development, and the prosperity of the people and the nation.

Efficiency and effectiveness of public administration starts from loyalty, strong commitment, professional skills and more importantly, the strong capacity and credibility of institutions. A particular aspect of public administrative reforms concern decentralization and deconcentration.

5.2.2 Reform of decentralization and deconcentration

RGC has a strong commitment regarding the program of decentralization and deconcentration (D&D) reform and is confident of the important roles of the national level administration in providing service and local economic development aiming to promote the people's livelihood and contribute to poverty reduction in an effective manner. From this commitment, RGC has actively promoted and supported the preparation and implementation of decentralization reform program, starting from the reform at commune/sangkat level in 2002 and at other sub-national administrative levels including Phnom Penh, provinces, cities, districts and khans since 2009 to be gradually developed and achieve many major objectives.

The process of the reform is to transfer step-by-step the responsibility in service provision and certain development from the national administration to sub-national administrations, particularly to the administrations of krongs/districts/khans and communes/sangkats through clear decision, in line with capacity building of the administration of capital/provincial municipality in strategic plan formulation, facilitation, support and oversight. In 2010, RGC formulated the 10-year National Program for Sub-National Democratic Development (2010-2019) to be the blueprint for the implementation of D&D Reform. The implementation of this program includes three stages and is managed and facilitated by the National Committee for Sub-National Democratic Development. In Stage 1, the 3-year Action Plan 1 was delayed for another year (2011-2014) to concentrate on system development and work process of sub-national administrations and to be completed by December 2014. At that moment Stage 2 was to start by the beginning of 2015 and continue until 2017, to concentrate on sub-national administrations providing more public services and better developing their local areas in a manner more responsive to the needs of the people. This would be achieved through functional decentralization of necessary service delivery and local development projects (from line ministries/institutions and capital/provinces to krongs/districts/khans and communes/sangkats), improvement of accountability of sub-national administrations, increase in local initiatives and autonomy, and increase in finances for sub-national administrations.

5.3 Policy and Institutional Support

As previously stated, RGC is committed to reform its PFM systems step by step in order to align with international standards by gradually transforming the system from dependence on the inputs management and centralization to be results-based and decentralized through the implementation of long term and in depth reform and the four step and/or stage strategies such as (i) Improving budget credibility, (ii) Improving financial accountability, (iii) Improving budget policy linkages, and (iv) expanding performance of the accountability.

In order to achieve the above strategic stages effectively and efficiency, the General Secretariat, Steering Committee of the Public Financial Management Reform (GSC) has been established as the secretariat responsible for leading, preparing, facilitating, following-up, and monitoring of implementation of the PFMRP as well as the facilitation on the cooperation with the Development Partners (DPs). In order to achieve the above role effectively and efficiently, the General Secretariat issued and released the vision and strategic guideline to support the program.

The budget is the key instrument to support effective policy implementation. It means that if the policy is clear and precise but not supported by the budget, the aimed objectives will not be reached. Similarly, without clear and precise policy the approved budget will be used ineffectively. With this in mind, there are clear policies, strategies, and action plans at macro level that reflect the Triangular Strategy of RGC and the strategic development plan of the country. Therefore, the national budget would become a critical instrument of policy implementation, and will need strong commitment of RGC to support the PFMRP through strategic platform step by step to adapt high levels of innovation and international standards by 2025. Through lessons learn of PFMRP in the past 10 years, RGC realizes the challenges and the path for continuing our journey. As a result of this experience, RGC has achieved (i) a clearly defined vision, (ii) strong political commitment, (iii) smart leadership and advancement, (iv) active involvement of line ministries and related agencies, (v) strong support from development partners, and (vi) strategic tools of management, following up, monitoring with effectively and efficiency.

Indeed, according to the words of Samdach Akka Mohasena Padei Techo HUN SEN, prime minister of Kingdom of Cambodia, if comparing to the received results and expected results, it is very worthwhile to spend the cost and effort, as it is commonly said "there is no outcome without input and there is no reformation without sacrifice and effort". Therefore, He always reminds that "Change is being alive; without change you die", and that it requires the careful thinking in all aspects with critical analysis and decision making to ensure fair competition and sustainable development. In this regard, to have achieved the main goals of the PFMRP by 2025 would lead Cambodia to a modern financial management system to promote the implementation of public financial management effectively and efficiently and enable RGC to provide better public services to the Cambodian People. In addition, the system will be able to use the resources based on the prioritized policy of RGC, all public revenues and expenses will be consolidated and recorded transparently no matter where the source is from, with the strong internal control on the performance to ensure on the achievement of final outcome under clear financial policy and procedure.

5.4 Strategic Leadership, and Monitoring Mechanisms

During the last 10 years, Cambodia achieved great performances in public financial management reform though many tasks still needed further implementation. Cambodia leads in choosing the platform approach which allowed the implementation of PFMRP with effectiveness; specifically through own methods and mechanisms.

The success of Stage 1 in 2008 was when the system of fundamental principles was implemented, implementation of good governance in administration strengthened, and budget credibility improved through the improvement in revenue collection, cash disbursement and management. As a result, predictability and monitoring of budget implementation increased because of the elimination of debts in arrears, liquidity issues, smoother expense flow, and improved revenue collection. In addition to that, these outcomes enhanced our capacity to withstand the global financial crisis from 2009 to 2011 thanks to government reserve funds that has built up from 2004 and 2008. Now is a turning point of Stage 2, where preparation are in work to introduce new components, including new chart of account, new budget classification, and new transactions in the current systems together with the implementation of FMIS. These new components and systems demand new skills and techniques in operation and management. The implementation of this new system can be considered as a new milestone that will lead our public financial management system towards international standards, particularly in terms of improved quality and responsiveness of accounting and financial reporting which are the foundations for improved transparency, accountability, as well as better budget analysis, policy analysis and other objectives in the next stage i.e, Phase 3.

At the same time, to strengthen leadership and management of the PFMRP, other components are also made ready to go into pilot testing in order to increase budget-policy linkages towards improved effectiveness of budget allocation and implementation, namely, Budget Strategic Plan (BSP), Program Budgeting (PB) and Budget Entity. BSP and PB were put into pilot implementation since the first stage of budget reform in 2008. The "Concept Book of Strategic Goals of Budget Reform in Cambodia 2013-2020" was also prepared to provide clear goals as well as to insure congruence and compatibility with the overall purpose of PFMRP and with other key reform programs of RGC that are being implemented, such as, Public Administrative Reform, Decentralization and Deconcentration Reform for Sub-National Administration.

For monitoring and evaluation, the PFMRP has 3 mechanisms: monthly, quarterly and annual monitoring and evaluations. Monthly M&E is an internal mechanism of MEF through the PFM Reform Committee, of all line ministries/institutions through PFM Working Groups, and of PFM Development Partners Committee. Monthly Reports and the results of such monthly meetings, even as internal mechanism, are widely published and distributed and are used as the basis for the preparation of quarterly reports and are subject to ad-hoc meetings of the PFM Steering Committee or/and PFM Technical Working Groups, if deemed necessary.

Quarterly M&E is a joint mechanism where the quarterly reports are prepared by the General Secretariat of the PFM Steering Committee based on the reports by MEF and all line ministries/institutions. These quarterly reports are official reports and are published for the public after the approval of the meeting of the PFM Reform Committee of MEF, PFM Reform Steering Committee, and PFM Technical Working Groups.

Annual M&E is a joint mechanism where the annual reports are prepared by General Secretariat of the PFM Steering Committee based on the reports by MEF and all line ministries/institutions. These annual reports are official reports and are published for the public after the approval of the meeting of the PFM Reform Committee of MEF, PFM Reform Steering Committee, and PFM Technical Working Groups. In addition to this, annual reports are subject to annual reviews (during a retreat) whereby these annual reviews are open, in-depth, with evaluation reports of independent evaluators, and are not only for progress review of action plan but also a forum for evaluation of efficiency and effectiveness of the overall reform program, as well as a mechanism for improving actions or/and strategic direction, that may even lead to adjustment of reform goals, if necessary.

Annexes

Annex 1: PFM Performance Measurement Framework Indicators Summary

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
A.	**PFM OUT-TURNS: Credibility of the budget**				
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	**B**	**A**	The deviations in absolute terms were 2.4%, 3.1% and 6.1% in 2011, 2012 and 2013 respectively	The scores are not entirely comparable as the basis for determining aggregate expenditure used in the PEFA 2010 report excluded capital expenditure. The rationale for this exclusion was that capital expenditure is not budgeted for by ministry – rather it is a one line item. This reasoning was not deemed to be valid. Still, if the same basis was used in 2015, the score for this indicator would still be an A.
PI-2	**Composition of expenditure out-turn compared to original approved budget**	**D**	**D+**	Scoring method M1	Not comparable. In 2010 only dim(i) existed.
(i)	Variance in expenditure composition, excluding contingency items	D	D	At 37.9%, 25.4% and 30.4% respectively in 2011, 2012 and 2013, the variance in expenditure composition exceeded 15% in all three years	The basis for determining variances for PI-2 (i) for PEFA 2010 was different and is therefore not comparable. Still, when the amounts are recomputed using the PEFA 2011 methodology, the variance in expenditure composition only exceeded 15% in 2008 when it stood at 16.1%. This comparison implies that the variance worsened in 2011, 2012 and 2013.
(ii)	The average amount of expenditure actually charged to the contingency vote	-	B	Actual average expenditure charged to the contingency vote averaged 5.3% for 2011, 2012 and 2013	No comparison possible. This indicator dimension did not exist in 2010.
PI-3	**Aggregate revenue out-turn compared to original approved budget**	**A**	**A**	Actual domestic revenue was 100.6% and 103.5% of budget in 2011 and 2013 respectively – in other words outturns are within the 97% to 106% range	The scoring criteria for PEFA PI-3 chamged in 2011. Under the previous methodology (used in 2010) RGC received an A score as revenue outturns in 2006, 2007

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
				for two of the three years	and 2008 were 105.1%, 124.3% and 134.7% of budget respectively. In other words the criterion "actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years" for an A was met. If the current methodology was applied to the same results, the score would change to a D as "actual domestic revenue collection was above 116% of budgeted domestic revenue in two of the" years 2007 and 2008. Therefore, RGC's performance has improved in 2015 compared to 2010.
PI-4	**Stock and monitoring of expenditure payment arrears**	**C+**	**D+**	Scoring Method M1	Comparison is not possible and change since 2010 cannot be assessed.
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	A	D	Estimates of amounts outstanding for more than 60 days on payment orders for goods and services as well as salary arrears, and arrears on debt interest and penalties implies that overall the stock of arrears is greater than 10% of total expenditure. The estimate is likely to further increase if data was available on invoices for which payment orders have not yet been issued.	The scores are not comparable. The 2010 score was based on ad hoc manual checks of outstanding payment orders, and did not include arrears on salaries or debt interest.
(ii)	Availability of data for monitoring the stock payment arrears	C	C	Although data maintained on the system can be extracted to Excel to generate reports, and was used to provide data for PEFA 2015, annual reporting is not a routine function and the systems are incomplete.	In 2010, the PEFA team ascertained the status of payment orders by manually checking the pile of unpaid payment orders at GDNT. Since then the KIT system has been installed. Although this automated system is installed to track payment orders from the point of receipt at GDNT, it is not used to monitor the overall stock of arrears on a regular basis. As salary and debt service arrears were ignored in 2010, the scores are not compable.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency**				
PI-5	**Classification of the budget**	**C**	**C**	The classification used for budgeting and accounting purposes in FY2014 was limited to administrative and economic classification.	The classification systems used for both budgeting and accounting purposes has remained unchanged since the previous assessment. The improvements concerning functional and program classifications are not yet sufficiently comprehensive to change the score.
PI-6	**Comprehensiveness of information included in budget documentation**	**B**	**C**	Three of the nine key elements of budget documentation (#1, 3, 8) were presented in the budget submission for 2015.	The number of key elements for which the scoring criteria were met decreased from five in 2010 to three in 2015 as the criteria for elements 2 and 9 are no longer met. The deficit is not defined as per GFS and estimates of the budgetary impact of major policy changes are not explained in budget documentation.
PI-7	**Extent of unreported government operations**	**C**	**C**	Scoring Method M1	Comparable. No change apparent since 2010.
(i)	Level of unreported extra-budgetary expenditure	C	C	Based on a sample of departments, estimates of collection of non-tax revenue suggest that the level of unreported extra-budgetary expenditure constitutes more than 5% but less than 10% of total RGC expenditure.	No change in score since 2010, but methods of estimation for 2010 and 2015 are completely different. Nevertheless, the approximate range of unreported expenditure is similar for the two years. This is consistent with no significant changes identified between 2010 and 2015 in the way non-tax revenues are collected and reported.
(ii)	Income/expenditure information on donor-funded projects	C	C	All externally financed project budgets (ex-ante) are captured in budget documentation based on the PIP. Actual project expenditure (ex-post) is covered in budget execution reports and in end-year financial reports but is complete only for loan financed projects. It is not possible to estimate precisely the proportion of grant-financed projects	No change since 2010. Systems have not changed significantly.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
				that is captured in execution and end-year reports but it is likely to be well below 50%.	
PI-8	**Transparency of inter-governmental fiscal relations**	**C+**	**B**	Scoring Method M2	Scores not directly comparable due to dim(i). No apparent change in performance.
(i)	Transparency and objectivity in the horizontal allocation among SN government	C	A	Communes/sangkats are entirely dependent on subsidies from the Commune Fund. Both the vertical allocation to the Fund and the horizontal distribution across communes are based on transparent and formula based systems	There appears to be little change in systems performance. The difference in rating may be due to the assessors in 2010 having a different interpretation of transparency in relation to the calculation of the poverty rate and population for each commune and sangkat.
(ii)	Timeliness of reliable information to SN government on their allocations	A	A	Communes/sangkats are provided firm information on their subsidies for the coming year several months before they complete their budgets, and disbursements follow a fixed schedule with minor delays only for communes that fail to submit quarterly accounts on time.	There is no change in systems performance
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	D	D	Functional or sectoral classification of expenditure is included in the chart of accounts neither for central government, nor for communes/sangkats.	There is no change in systems performance
PI-9	**Oversight of aggregate fiscal risk from other public sector entities.**	**C+**	**C+**	Scoring Method M1	Scores comparable. No significant change apparent since 2010.
(i)	Extent of central government monitoring of AGAs/Pes	C	C	MEF/GDSPNTR receives annual reports on all PEs and most PAEs. Consolidated overview (excluding NBC) is provided but does not identify and analyze fiscal risks to the central government and covers only 60% of the PAEs.	Minor improvement in that GDSPNTR now consolidates financial information on PEs and PAEs respectively into annual reports. But this is not enough to change the score.
(ii)	Extent of central government monitoring of SN governments' fiscal position	A	A	The financial position of all levels of sub-national administration is monitored quarterly and consolidated into reports for each SNA level separately. Whilst these reports do not identify or	No apparent performance change.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
				analyze fiscal risk issues, in practice the communes and sangkats cannot create fiscal risks for central government.	
PI-10	**Public access to key fiscal information**	**C**	**D**	None of the six criteria have been met. Whilst four of the report types listed are being made public, this happens with (mostly significant) delay.	Scores are comparable. A slippage in timeliness of publishing the in-year report causes the reduced score. On the other hand improvements are noted on some other elements, but not enough to lead to a higher score. This concerns elements [iii], [iv] and [vi]. For element [i] public access to hear the speech of the Minister of MEF to the National Assembly during its review of the proposed budget for 2015 is an improvement.
C.	**BUDGET CYCLE**				
C(i)	**Policy-based Budgeting**				
PI-11	**Orderliness and participation in the annual budget process**	**A**	**A**	Scoring Method M2	Scores comparable. No significant change apparent since 2010.
(i)	Existence of and adherence to a fixed budget calendar	A	A	LMs have about 4 and 5 weeks in order to prepare their budgets for the two stages respectively i.e. about 9 weeks in total. Both stages include indicative (soft) ceilings approved by the Council of Ministers. While minor delays in some LM submissions occur, they are insignificant and do not affect overall adherence to the calendar.	No apparent change in performance. The system and its implementation remain the same., but the 2010 assessment assigned an A rating despite the delay in budget submission in July by some LMs, which happened in both 2008 and 2014.
(ii)	Guidance on the Preparation of budget submissions.	A	A	The BSP circular is implicitly approved by the Government through its previous approval of the macro-economic framework and any policy revisions/reprioritizations. The detailed budget circular is approved by the Government prior to its distribution to ministries/	No apparent change in performance. The system and its implementation remain the same.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
				provinces. Top-down ceilings are imposed for overall expenditure (separately for current and capital) and for the four sectors in terms of percentage of GDP (indicative). Detailed estimates prepared by ministries/provinces are guided by the amounts of allowed increase from the previous year, as stipulated in the guidelines for different economic categories.	
(iii)	Timely budget approval by the legislature	A	A	The budget law has been approved by the legislature and the King has given his assent before the 31st December in all of the last three years.	No apparent change in performance. The system and its implementation remain the same.
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**B**	**C+**	Scoring Method M2	Scores comparable. No significant change in performance since 2010, as the change in score is caused by a evry minor change in performance on dim(iii).
(i)	Multi-year fiscal forecast and functional allocations	C	C	Three-year forecasts of fiscal aggregates are prepared annually on the basis of the main economic categories. There is no breakdown of the aggregates by sector, function or administrative classification and changes from one year's update to the next are not explained in any detail.	There appears to be little change in the performance of this dimension.
(ii)	Scope and frequency of debt sustainability Analysis	A	A	DSA covering external and domestic debt is undertaken by MEF annually	The DSA continues to be updated annually (resulting in no change of the score). However, the capacity to undertake the DSA has been developed within MEF so that MEF now performs the function, whereas during the previous period assessed this work was performed by the IMF and World Bank.
(iii)	Existence of costed sector strategies	B	C	The education sector and (to a large extent) the health sector have fully costed strategic plans aligned with fiscal aggregates. The two sectors	The performance has changed only marginally. The education and health sectors remain the ones having costed sector development strategies consistent with

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
				account for about 23% of total primary expenditure. Most other sectors have strategic plans but full and consistent costing is not provided.	fiscal forecasts. However, the importance of those sectors has dropped from 26% to 23% of budget spending which results in a reduction in score due to the threshold for a C score being 25%.
(iv)	Linkages between investment budgets	C	C	Investment decisions are mainly made on the basis of availability of external funding, rather than on the basis of sector strategies. Recurrent cost implications of investment projects are not included in the prioritization criteria for selection and only in the roads and irrigation sectors are there specific attempts to set aside recurrent budget for O&M related to the investments.	There appears to be little difference in performance as recurrent and investment budgeting remain largely separated processes, and the links between investment decisions and sector strategies remain weak.
C(ii)	**Predictability and control in Budget Execution**				
PI-13	**Transparency of taxpayer obligations and liabilities**	**B**	**C+**	Scoring Method M2	Scores not comparable. Overall performance does not appear to have changed signficantly.
(i)	Clarity and comprehensiveness of tax liabilities	B	C	There is significant scope for making certain laws clearer and further reducing discretionary powers to make the regulatory framework transparent and fair (in particular profit tax)	Scores not comparable. PEFA 2010 did not identify gaps in and problems with the LOT. Yet these are significant and have not changed. Revisions to the regulatory environment are still ongoing.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	Access to information is readily available on GDT and GDCE websites. There are also forums which promote dialogue with taxpayers. However internal human capacity and budget constraints limitthe extent to which taxpayers can access comprehensive, user-friendly and up-to-date information	More information is available through GDCE and GDT websites, dialogue and taxpayer education. However, resource constraints limit the coverage of taxpayer services, so overall performance has not changed significantly.
(iii)	Existence and functioning of a tax appeals mechanism	C	C	A system of tax appeals procedureshas been established, but in practice only parts of the appeal systems are operational.	No significant change

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**C**	**D+**	Scoring Method M2	Scores not directly comparable. No significant change in performan ce is apparent.
(i)	Controls in taxpayer registration system	C	D	There are substantial weaknesses in the taxpayer registration system. It is not accurate or complete, and the process of recruiting new taxpayers has not been institutionalized	Scores not comparable. The 2010 PEFA ranked PI-14 (i) as a C on the basis that a TIN was in place for all major taxes. However, the 2010 assessment report does not mention the serious control weaknesses in the registration system. The current assessment considers a C score would be warranted only if occasional surveys of potential taxpayers were also carried out, but this is not the case. No significant change in performance.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	The provisions are not fully effective in promoting compliance for the following reasons: (1) the penalty for non-registration is too low; and (2) there are challenges to do with follow up and enforcement	No apparent change. The penalty amounts remain unchanged. Enforcement remains a problem.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	C	C	Whilst there has been some improvement in auditing practices, the risk assessment criteria are not fully developed or standardized. Also the scope of audits in GDCE and GDT is limited to export related imports, and a very small number of large taxpayers in the real regime respectively	No significant change. Whilst there have been some improvements since 2010, the scope of audits in both GDT and GDCE is limited to select taxpayers.
PI-15	**Effectiveness in collection of tax payments**	**D+**	**D+**	Scoring Method M1	Scores are comparable. No significant change in performance.
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	D	The level of tax arrears is high and the debt collection ratio in all of the three years 2011-2013 was well below 60% (17.8% in both 2012 and 2013)	The scores are comparable. However, the tax arrears collected as a percentage of beginning year stock of tax arrears improved in 2012 and 2013 to 17.8% as compared to 4.5% in 2008, but this is insufficient to change the score.
(ii)	Effectiveness of transfer of tax	B	B	Most revenue is transferred to the government daily.	No apparent change. The transfer system remained

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
	collections to the Treasury by the revenue administration			Some tax revenues are collected by GDCE and GDT offices and subsequently deposited in the bank. Such deposits are not always made on a daily basis, but at least weekly	unchanged
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	C	Collections are reconciled on a daily basis. However, the team was only able to obtain evidence that other items are reconciled on an annual basis	No apparent change. PEFA 2010 relied upon information provided by GDT that reconciliations are conducted monthly for tax assessments and collections, and annually for tax arrears. The PEFA 2015 only saw evidence of this reconciliation on an annual basis.
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**C+**	**C+**	Scoring Method M1	Scores are comparable. Improvement in dim(i) is evidenced.
(i)	Extent to which cash flows are forecast and monitored	C	B	The cash forecast is updated quarterly on the basis of actual past cash flows and re-forecasts for the remainder of the year	Dim(i): Improvement from C rating in 2010 due to improved flow of information from LMs to the center Cash Management Unit and greater reliability of CMTC projections.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	B	B	LMs are able to prepare their revenue and expenditure programs on a quarterly basis.	No change apparent since 2010.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	C	C	In-year adjustments are significant in amount and frequent but undertaken with some transparency	No change apparent since 2010.
PI-17	**Recording and management of cash balances, debt and guarantees**	**C+**	**C+**	Scoring Method M2	Scores are comparable. No significant change in performance.
(i)	Quality of debt data recording and reporting	C	C	Domestic and foreign debt records are complete, updated and reconciled with creditor statements annually.	Improvement in debt reporting, but insufficient to raise the score.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
(ii)	Extent of consolidation of the Government's cash balances	B	B	Most cash balances are calculated and consolidated at least weekly	No apparent change.
(iii)	Systems for contracting loans and issuance of guarantees	C	C	Contracting of loans and guarantees are all approved by MEF and within limits for total debt, but not at present for guarantees.	No apparent change.
PI-18	**Effectiveness of payroll controls**	**D+**	**D+**	Scoring Method M1	Scores are comparable. No significant change in performance.
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	B	Personnel and payroll data are not directly linked but payroll changes are fully documented and reconciled with the previous month's payroll totals	No apparent change in performance since 2010
(ii)	Timeliness of changes to personnel records and the payroll	C	C	Up to 3 months delay occurs in a large part of payroll changes and there are many retroactive adjustments (around 30% of the total).	No apparent change in performance since 2010
(iii)	Internal controls of changes to personnel records and the payroll	B	B	Authority for changes to personnel records and payroll are clear, though there is no audit trail	No apparent change in performance since 2010
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	D	D	There has been no comprehensive payroll audit in the last three years	No apparent change in performance since 2010
PI-19	**Competition, value for money and controls in procurement**	**NA**	**D**	Scoring Method M2	Not comparable. Change in performance cannot be assessed.
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	NA	B	The Law on Procurement (2012) meets four of the six requirements.	No comparison can be made with the 2010 scores, as they were made on a different method of assessment.
(ii)	Use of competitive procurement methods	NA	D	There is no reliable data on whether contracts in 2014 were justified in accordance with legal requirements	No comparison can be made with the 2010 scores, as they were made on a different method of assessment.
(iii)	Public access to complete, reliable and timely procurement information	NA	D	There is no system to generate substantial and reliable coverage of key procurement information	No comparison can be made with the 2010 scores, as they were made on a different method of assessment.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
(iv)	Existence of an independent administrative procurement complaints system	NA	D	There is no independent procurement complaints review body	No comparison can be made with the 2010 scores, as they were made on a different method of assessment.
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C**	**C**	Scoring Method M1	Scores are not entirely comparable. However, no significant change in performance is apparent.
(i)	Effectiveness of expenditure commitment controls	C	C	The guidelines provide only procedures for current expenditure commitments. Moreover, urgent or exceptional expenditure commitment proposals do not follow these procedures.	No apparent change since 2010
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C	There is a basic set of controls in place but areas such as capital expenditure and asset management have no clear control guidelines.	It is difficult to compare the scores as the 2010 assessment did not mention the gaps and lack of clarity in the internal control rules. However, little appears to have changed over the period.
(iii)	Degree of compliance with rules for processing and recording transactions	C	C	The comments by the NAA show frequent non-compliance with the rules	No apparent change since 2010
PI-21	**Effectiveness of internal audit**	**D+**	**C**	Scoring Method M1	Scores are comparable. Improvement in dim(i) is evidenced.
(i)	Coverage and quality of the internal audit function	D	C	The IA function covers all government agencies and undertakes some systems review (over 20% of staff time)	Upgraded from D in 2010, when there was no focus on systemic issues.
(ii)	Frequency and distribution of reports	C	C	IA Units submit their reports to the concerned minister and to the NAA, but not at present to MEF	No apparent change since 2010
(iii)	Extent of management response to internal audit findings	C	C	A fair degree of action is taken by many managers on major issues but often with delay.	No apparent change since 2010
C(iii)	**Accounting, Recording and Reporting**				
PI-22	**Timeliness and regularity of accounts reconciliation**	**C**	**C**	Scoring Method M2	Scores are comparable. No significant change in performance.
(i)	Regularity of Bank reconciliations	B	B	Reconciliations of all Treasury-managed bank	No apparent change since 2010.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
				accounts is completed monthly within two weeks	
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	D	D	Reconciliation and clearance of most advances takes longer than two months	No apparent change since 2010.
PI-23	**Availability of information on resources received by service delivery units**	**C**	**D**	There has been no comprehensive collection of data on resources received by primary schools and health centers.	Scores are not comparable. The assessment in 2010 awarded a C without evidence of actual receipt of resources. It appears there has been no change before 2015.
PI-24	**Quality and timeliness of in-year budget reports**	**C+**	**C+**	Scoring Method M1	Scores are comparable. Improvement in performance on dim(ii) is evidenced.
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Classification allows comparison with the budget but only at the payment stage	No apparent change since 2010.
(ii)	Timeliness of the issue of reports	B	A	Reports are prepared monthly and issued within fourweeks	Significant improvement in timeliness of reporting from provincial level.
(iii)	Quality of information	C	C	Much externally-funded project expenditure is omitted and there are minor concerns about accuracy, but they do not compromise the overall usefulness of the reports	No apparent change since 2010.
PI-25	**Quality and timeliness of annual financial statements**	**D+**	**D+**	Scoring Method M1	Scores are comparable. Improvements on dimensions (ii) and (iii) evidenced.
(i)	Completeness of the financial statements	D	D	Essential information is missing from the financial statements	No apparent change since 2010.
(ii)	Timeliness of submission of the financial statements	C	B	Financial statements for 2013 were submitted to NAA within ten months of the end of year	Significant iImprovement in the timeliness of reporting as financial statements are now submitted 3-5 months earlier.
(iii)	Accounting standards used	D	C	Statements are prepared in consistent format over time with some disclosure of accounting standards	Improvement as a consistent format is used from year to year and there is now some disclosure of standards.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
C(iv)	**External Scrutiny and Audit**				
PI-26	**Scope, nature and follow-up of external audit**	**D+**	**NR**	Scoring Method M1	No comparison possible, but improvement on dimension (ii) is evidenced.
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	D	NR	50-60% of total expenditure is said to be covered, but documentary evidence was lacking	In 2010, coverage was said to be 54%, also without evidence. No comparison possible for lack of evidence.
(ii)	Timeliness of submission of audit reports to the legislature	C	A	Audit report submitted to the legislature within 4 months of receipt of the Budget Settlement Statement.	Improvement as there has been a major improvement in the timeliness of audit reports.
(iii)	Evidence of follow-up on audit recommendations	C	C	A formal response is made but the evidence of systematic follow up is lacking.	No change apparent since 2010
PI-27	**Legislative scrutiny of the annual budget law**	**NU**	**C+**	Scoring Method M1	No comparison possible. Change in performance cannot be assessed.
(i)	Scope of the legislature's scrutiny	NU	C	The legislature's review covers details of expenditure and revenue at the stage where detailed proposals have been finalized by the government.	No comparison possible. The 2010 report did not score this indicator due to inability to collect sufficient information.
(ii)	Extent to which the legislature's	NU	B	Simple procedures for the legislature's review and approval exist and are respected.	No comparison possible. The 2010 report did not score this indicator due to inability to collect sufficient information.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	NU	C	The period available for the legislature's review and approval is about 7 weeks. In practice, the legislature has taken less time to review the draft and pass the budget law.	No comparison possible. The 2010 assessment did not score this indicator due to inability to collect sufficient information.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	NU	B	Rules for in-year budget amendments without prior legislative approval are relatively clear and respected, but allow for significant reallocations, though not for expansion of the overall amount of expenditure (even in case of excess revenue collection).	No comparison possible. The 2010 assessment did not score this indicator due to inability to collect sufficient information.

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
PI-28	**Legislative scrutiny of external audit reports**	**NU**	**B**	Scoring Method M1	No comparison possible. Change in performance cannot be assessed.
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	NU	B	Audit reports are examined and legislative scrutiny completed within six months of receipt of audit reports	No comparison possible. The 2010 assessment did not score this indicator due to inability to collect sufficient information.
(ii)	Extent of hearings on key findings undertaken by legislature	NU	B	In-depth hearings take place with responsible officers from the audited entities, but not necessarily all audited entities	No comparison possible. The 2010 assessment did not score this indicator due to inability to collect sufficient information.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	NU	B	Actions are recommended to the executive, some of which are implemented.	No comparison possible. The 2010 assessment did not score this indicator due to inability to collect sufficient information.
D.	**DONOR PRACTICES**				
D-1	**Predictability of Direct Budget Support**	**C**	**D**	Scoring Method M1	Scores not directly comparable. Deterioration in performance is evidenced.
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	C	D	In the last 3 years (2012-2014) actual BS disbursements fell short of the planned amounts in two years by 67 and 64% respectively i.e. by more than 15% in two of the three years.	Scores are not comparable. The shortfalls in actual versus planned BS have deteriorated significantly since 2010. Nevertheless, the evidence in the 2010 report suggests that an A rating would apply, so there is a deterioration in any case.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NU	D	No quarterly disbursement forecasts are being provided.	There is no change in performance as donors did not provide quarterly disbursements during the three years prior to 2010.
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**D**	**D+**	Scoring Method M1	Scores are comparable. Improvements in performance is evidenced.
(i)	Completeness and timeliness of budget estimates by donors for	D	C	Practically all donors provide annual estimates of disbursements well in advance of the government's	Reporting to the CDC database has improved and provides near complete estimates of donor assistance for

No.	Indicator	Score 2010	Score 2015	Justification for 2015 score	Comparability of scores and explanation of change since previous assessment
	project support			annual budget preparation. The information does not follow the government's budget classification system.	the coming year.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	D	Whilst practically all donors provide annual data on actual disbursements, there is no reporting on a quarterly basis and the information is not provided in a format consistent with the government's budget classification system.	Reporting on actual disbursements has improved since 2010, but not sufficiently to justify a higher score. Information is more complete.
D-3	**Overall proportion of aid funds to central government that are managed through national procedures**	**D**	**D**	The overall use of country systems is in the order of 25%-30% i.e. well below the 50% required for a C score.	Whilst the score has not changed, performance on this indicator has improved significantly. The 2010 report showed that 12-16% of development assistance used country systems at the time.

Annex 2: Members of the Assessment Team

Name	Institution	Position
MEF Supervision of the Assessment		
Dr. Sok Saravuth	MEF	Undersecretary of State and Secretary General of GSC until 10th July 2015
Dr. Ros Seilava	MEF	Undersecretary of State and Secretary General of GSC from 13th July 2015
Coordination and guidance throughout the assessment process		
Mr. Suhas Joshi	IMF	Regional PFM Advisor
MEF Project Team		
Dr. Hel Chamroeun	MEF	Secretary General, MEF General Secretariat, and Deputy Secretary General, GSC
Mr. Yeth Vinel	MEF	Deputy Secretary General, MEF General Secretariat, and Deputy Secretary General GSC
Mr. Meas Soksensan	MEF	Deputy Secretary General, MEF General Secretariat, and Deputy Secretary General, GSC
Mr. Bou Vong Sokha	MEF	Deputy Director General, General Department of Sub-National Administration Finance, and Deputy Secretary General, GSC
Mr. Pen Thirong	MEF	Deputy Secretariat General of GSC
Mr. Ung Luyna	MEF	Deputy Secretariat General of GSC
Mr. Ouch Sophorn	MEF	PFM Specialist
Mr. Tieng Sokphyrom	MEF	PFM Specialist
Mr. Um Youthy	MEF	Senior PFM Specialist
Mr. Yorn Malimchheng	MEF	PFM Specialist
Mr. Heang Soyaro	MEF	PFM Specialist
Mr. Ly Vong	MEF	PFM Specialist
Mrs. Sokun Chakriya	MEF	PFM Specialist
Mr. Prang Udom	MEF	PFM Specialist
Team of external consultants		
Mr. Frans Erik Ronsholt	Freelance	Team Leader, consultant contracted by MEF
Mr. Tony Bennett	Freelance	Consultant contracted by MEF
Ms. Elizabeth Kariuki	Freelance	Consultant contracted by IMF

Annex 3: List of Stakeholders Interviewed during Validation Mission

Division/unit	Name,/Position
Ministry of Economy and Finance	
General Department of Budget	H.E. Ung Luyna, Deputy General Director Lay Sokkheing, Deputy Head of Department Srey Vuth, Deputy Head of Department Seng Chamreoun, Chief Office Kem Channdoeurn, Deputy Chief Office Lors Pinit, Acting Head of Department Khiev Nava, Deputy Chief Office
General Department of Internal Audit	Ms. Nget Movylen, Deputy Director General Mr. Tork Sokhom, Deputy Director Mr. Chhet Channimith, IT Auditor Mr. Chhuon Sophea, IT Auditor Mr. Phath Veasna, IT Auditor
General Department of Economic and Public Finance Policy	Mr. Kim Phalla, Deputy Director General Mr. Chheang Vannarith, Director Macroeconomic and Fiscal Policy Department Chea Kon Hong, Deputy Director Chhun Dalin, Deputy Director Hang Visoth, Chief Office of Statistics Department Som Sothea, Director of Statistics Department Mak Vichetsackda, Staff of Macroeconomic and Fiscal Policy Samon Kontell, Staff of Macroeconomic and Fiscal Policy Ban Kosal, Staff of Statistics Department Dy Chan Vanny, Staff Choun Rottanak, Staff Chea Vitom, Staff Sem Sohea, Staff Ky Sokkim, Staff
General Department of National Treasury	Mr. Soun Vichet, Deputy General Director Moeun Lin Mr. Pheng Sophanna Hout Serey Mongkol Keth Bunhoeurn Heng Chorvy Hai Vannavuth
General Department of State Property and Non-Tax Revenue	Mr. Sok Thy, Deputy Director General Mr. Deth Veasna, Deputy Director Bou Dara, Office Manager Phat Piseth, DSNR Kou Reansey, Officer
General Department of Customs and Excise	Mr. Sok Try, Deputy Director of Administration and Management Mr. Chea Samonn, Deputy Chief of Office Administration and Finance
General Department of Taxation	Mr. Sem San, Deputy Director Mr. Po Sandap, Deputy Office Manager Mr. Kong Pobolin, Deputy Office Manager

Division/unit	Name,/Position
	Mrs. Nou Simorn, Deputy Office Manager Mr. Seng Piseth, Deputy Office Manager Mr. Yeth Kolsatya, Officer Mr. Sun Vuthy, Officer Saor Sobunna, Officer
General Department of Finance for Sub-National Administrations	Mr. Bou Bou Vong Sokha Deputy Secretary General Mr. Dy Sovann, Deputy Secretary General Mr. Tann Lo, Deputy Director
General Department of Public Procurement	H.E Chhim Sareth Director General Mr. Ngann Phirum, DDG of GDPP Mr. Hout Vathana, DDG of GDPP Mr. Khieu Khemrakcheat, Director Long Chinith, Director Mr. Men Ses, Advisor Mao Sophorn, Director Construction Ly Sarun, Director Soun Sopheam, Deputy Director
Information Technology Department	Mr. Maun Prathna, Director of ITD
Other Government Ministries and Institutions	
Council for the Development of Cambodia	H.E. Rith Vuthy Deputy Secretary General of CDC/CRDB Mr. Keang Savuth, Director Chhun Mardy, HR Staff
Ministry of Planning	H.E. San Sythan, Secretary of State Mr. Kong Sophat, Director Hing Chanmonea, Deputy Director Theng Pagnathun, Director General San Vannakreth, Director Oeur Sophal, Deputy Director Eng Vida, Office Chief Phal Chan Chakiya, Deputy Chief
Ministry of Public Works and Transport	Mr. Soeun Bunly Deputy Director General of Administration Nheouk Chanvannara, Deputy Director Sun Sambath, Vice Office Manager Mork Dul, Office Manager Nhem Serindy, Deputy Director Nhean Pun, Office Manager Thea Chheang Y, Officer Uy Sambath, Officer
Ministry of Education, Youth and Sports	Oung Borat, Deputy Director Generl Policy & Planning Kann Puthy, Officer of PED Pom Laiheng, Officer of DoF Sary Peou, Deputy of DoF Thet Praus, Deputy Director IAD
Ministry of Health	You Pisey, Deputy Director of Administration and Finance Sok Sam Ang, Director

Division/unit	Name,/Position
	Khout Theavary, Deputy Director So Nary, Chief of Financial Planning To Sophorn, Chief of Liquidation Office Sorn Seakhoy, Supply Office
Ministry of Civil Service	H.E. Ol Ro, General Director Meas Sopheak, Deputy Director of MCS Sem Vannak, Deputy Director of MCS Pen Piseth Deputy Director of MCS
Ministry of Commerce	Roith Samorn, Deputy General Director of Administration and FInance Department Mr. Sam Borey Deputy Director of Finance Department Ms. Vann Theara, Deputy Director of Commercial Registration Department Mr. Bun Sambath, Chief of Procurement Office Mr. Va Lyvan, Deputy Chief of Procurement Office
National Audit Authority	
National Audit Authority	H.E. Ouk Saravuth, Secretary General of NAA Mr. Por Bun, Director Mr. San Visal, Deputy Director Mr. Hok Sopheak, Deputy Director
National Assembly	
	H.E. Korn Chheur, Secretary to H.E. Post Dr. Cheam Yeap, Member of the Standing Committee of the National Assembly and Chairman of the Commission on Economy, Finance, Banking and Audit Toch Sophorn, Assistant
National Bank of Cambodia	
	Mr. Or Chandara Director of Accounting Department Mr. Mok Vutha, Director of Bank Cooperation Department
Development Partners	
World Bank Country Office	Ms. Leah April,Senior Public Sector Management Specialist Dr. Sokbuntheon So,Public Sector Specialist Mr. Sodeth Ly,Economist Mr. Lor Latharo ,Procurement Specialist
Delegation of the European Union	Mr. Christian Provoost,Attaché
Asian Development Bank Resident Mission	Mr. Jan Hansen, Senior Country Economist Mr. Chamroen Ouch, Senior Programs Officer
JICA	Odashima Yoko, Advisor on Customs Policy and Administration to GDCE
Non-state Institutions	
NGO Forum	Ms. Kim Nay,Development Issues Program Manager
Cambodia Chamber of Commerce	H.E. Ngoung Mengtech, Director General Mr. Keo Nimeth, Director of Cooperation and Development Department

Annex 4: List of Documents Consulted

Performance Indicator	Information sources	
	Institutions	Documents, websites
PI-1	GDB, GDNT	• Budget Settlement Law 2011, 2012 and 2013, www.national-assembly.org.kh • MEF/GSC (2014) Report on the Review Outcomes of the Implementation of Public Financial Management Reform Program. • IMF (Febr 2014) Cambodia: 2013 Article IV Consultation. IMF Country Report No. 14/33.
PI-2	GDB, GDNT	• Budget Settlement Law 2011, 2012 and 2013, www.national-assembly.org.kh
PI-3	GDB, GDEPFP	• Budget Settlement Law 2011, 2012 and 2013. • TOFE from website www.mef.gov.kh • IMF (2013) Cambodia: 2012 Article IV Consultation. IMF Country Report No. 13/2. • GDT: Revenue Mobilization Strategy (2014 - 2018) • GDCE:Medium-term strategy (2014 - 2018)
PI-4	GDNT, GDB, MOC, CCC	• GDNT Arrear Report in Fiscal year 2013 and 2014 • GDNT Tables on Salary arrears by month 2011-2014 • Progress Report of Public Financial Management Reform
PI-5	GDB, GDNT, GDEPFP	• Budget Law 2015, • Chart of Account 2007/2013 • GFS 2001/1986 • New Budget Classification • IMF: Cambodia Priority Issues for the FMIS Implementation, Gentry, Wiest, Joshi, Bradley, and Ujvarosy, March 2014
PI-6	GDB, GDEPFP	• Draft Budget Law 2015 with explanatory notes by the Minister for Economy and Finance,
PI-7	GDSPNTR NBC MEYS, MOH CDC	• Budget Law 2015, • Budget Settlement Law 2013, www.national-assembly.org.kh • GDSPNTR 2014: Name list of Public Administration Establishments, and Report on revenue and expenditure closing balance 2013 for public administrative entities. • GDSPNTR, December 2014: Report on financial business, service and other revenue of public enterprises in 2013. • TOFE reports from www.mef.gov.kh
PI-8	GDFSNA	• Law on Administration Management for Commune and Sangkat • Law on Administration Management for Municipal Provincial City District Khan • Strategic Plan on Social Accountability of Sub-National Democracy Development • Law on Public Financial System • Law on Financial Regime and State Property for Sub-national • Sub-Decree on Municipal -District Funds • Sub-Decree on Financial System for Commune-Sangkat • Sub-Decree on Financial System for Municipal-District • Prakas and Circular and Formula on Budget Allocation for Sub-national

Performance Indicator	Information sources	
	Institutions	Documents, websites
PI-9	GDSPNTR GDFSNA NBC	• GDSPNTR 2014: Name list of Public Administration Establishments, and Report on revenue and expenditure closing balance 2013 for public administrative entities. • GDSPNTR, December 2014: Report on financial business, service and other revenue of public enterprises in 2013. • Law on General Regulation for Public Enterprises • Guideline on State Property and Asset Registration • Report by Board of Direction (PE/PAE)
PI-10	National Assembly NAA GDEPFP, GDB, NGO Forum MEYS, MOH	• NGO Forum (2013), "Budget Transparency Brief for Cambodia 2012"www.cambodianbudget.org • NAA website • National Assembly website www.national-assembly.org.kh • TOFE on MEF website www.mef.gov.kh
PI-11	GDB MEYS MOH MPWT National Assembly	• Law on Public Finance System 2008, • Budget Law 2015, • Circular on preparation of BSP for FY2015 • Circular on budget estimates preparation for FY2015
PI-12	GDEPFP, GDB, MOP, CDC, MEYS, MOH, MPWT	• Budget Law 2015 • Strategic Paper on Public Debt Management 2011-2018 • NSDP 2014-2018 • Health Strategic Plan 2008-2015 • Education Strategic Plan 2014-2018
PI-13	GDT, GDCE, Bureau of Statistics, IMF, JICA, CCC	• RGC (2013) Enforcement Trends and Compliance Challenges in Cambodia. Presentation by Mr. Eng Ratana at IMF-Japan High Level Tax Conference for Asian Countries. • KPMG (2013) Cambodia Tax Profile. Produced in conjunction with the KPMG Asia Specific Tax Centre. • RGC (2013) Laws and Regulation related to the Establishment and Management of Special Economic Zone. First Edition. • Deloitte (2015) Cambodia: Highlights 2015. International Tax. http://www2.deloitte/content/dam/Deloitte/global/Documents/Tax/dttl-tax-cambodiahighlights-2015.pdf [Accessed 21 July 2015]. • GDT (2012) Cambodia: Tax Revenue Reform – Issue, Further Reforms. Presentation by Mr. Um Seiha at IMF-High Level Tax Conference for Asian and Pacific Countries. • IMF (2013) Cambodia: 2012 Article IV Consultation. IMF Country Report No. 13/2. • RGC (2014) The 4th Meeting of Customs – Private Sector Partnership Mechanism. Phnom Penh, April 2014. • GDT (2012) Cambodia: Tax Revenue Reform – Issue, Further Reforms. Presentation by Mr. Um Seiha at IMF-High Level Tax Conference for Asian and Pacific Countries. • GDT: Revenue Mobilization Strategy (2014 - 2018) • GDCE: Medium-term strategy (2014 - 2018)
PI-14	GDT, GDCE,	• Unteroberdoerster, O. (2014) Cambodia: Entering a New Phase of Growth. International Monetary Fund. Washington D.C.

Performance Indicator	Information sources	
	Institutions	Documents, websites
	IMF, JICA, CCC	• RGC (2012) Economic Census of Cambodia 2011: National Report on Final Census Results. National Institute of Statistics, Ministry of Planning. March 2012. • Galliano, A (2015) The urgent need for tax reform. The Phnom Post. 8 April 2015. • De Carteret, D. and Kimsay, H. (2013) Customs' taxing dilemma. The Phnom Penh Post. 21 November 2013. • RGC (no date) Post-Clearance Audit. 2nd edition. • GDT: Revenue Mobilization Strategy (2014 - 2018) • GDCE: Medium-term strategy (2014 - 2018)
PI-15	GDT, GDCE,	• RGC (2013) Enforcement Trends and Compliance Challenges in Cambodia. Presentation by Mr. Eng Ratana at IMF-Japan High Level Tax Conference for Asian Countries. • GDT: Revenue Mobilization Strategy (2014 - 2018) • GDCE: Medium-term strategy (2014 - 2018)
PI-16	GDNT, MEYS, MOH MPWT	• Budget implementation circular, • MPWT Budget Law 2015 (Revenue and Expenditure Plan for 2015), • Cash Management Manual, • Law on Public Finance System 2008, • 2013 Financial Law, • Schedule of budget reallocations from Chapter 9 allowed by GDB in 2013, www.treasury.gov.kh
PI-17	GDB/Department of Cooperation and Debt Management, MEYS, MOH MPWT	• Debt Management Strategy, • Law on Public Finance System 2008, • Summary of Debt Situation as of 31.3.2015, • IMF Article IV report of February 2014, • IMF-FAD (2012) Strengthening Treasury Management
PI-18	Ministry of Civil Service, MEYS, MOH, MPWT, GDIA, NNA	
PI-19	GDPP, MEYS, MOH MPWT, Chamber of Commerce	• Procurement Law 2012, • Implementing Rules and Regulations Governing Procurement, 2010, • Prakas 45, mef.gov.kh/old/procurement
PI-20	GDB, MEYS, MOH MPWT, MEF General Inspectorate Department, GDIA	• Prakas 2006, • Cash Management Manual, • NAA report on 2013 Budget Implementation, • Transparency International CPI Results Tables www.transparency.org
PI-21	GDIA	• Audit Law 2000, Sub-Decree 40, 2005, Circular 003, 2014, Prakas 405 & 1109. • Internal Audit Manual, www.gdia.mef.gov.kh
PI-22	GDNT,	• Sub-decree 155, Statements of number and balances of suspense

Performance Indicator	Information sources	
	Institutions	**Documents, websites**
	NBC,	accounts and advance accounts at end 2011, 2012 and 2013. • Trial Balances at end December 2014 and end February 2015. Report of Ending Balances on Government Accounts as on 9 July 2015, Statement of bank accounts reconciled by GDNT
PI-23	MEYS, MOH	• Revenue and Expenditure Report for health centres and hospitals, qtr to December 2013
PI-24	Budget Revenue and Expenditure Department/GDNT, GDEPFP, Financial Affairs Department/GDNT	• TOFE examples, • State Budget Implementation Report December 2011
PI-25	GDNT	• Sub-Decree 1995. • Budget SettlementLaw Report 2013 (October 2014)
PI-26	NAA	• Audit Law 2000, • Decrees 2000 and 2006, • 2013 Report (November 2014)
PI-27	National Assembly 2nd Commission	• Law on Public Finance System 2008
PI-28	National Assembly 2nd Commission, NAA	• Audit Law
D-1	CDC, WB, ADB, EU	• CDC Database as updated June 2015 at http://cdc.khmer.biz/
D-2	CDC, GDB, WB, ADB, EU	• CDC Database as updated June 2015 at http://cdc.khmer.biz/ • CDC Development Cooperation Trends in Cambodia July 2014
D-3	CDC, GDB	• CDC Development Cooperation Trends in Cambodia July 2014.

Annex 5: Data Tables

Annex 5.1: List of Public Administrative Entities

Name of entity	Supervising ministry	Government subsidy 2013 in KHR billion	Own revenue 2013 in KHR billion
National University of Management	MEYS	0.8	27.9
Royal University of Law and Economics	MEYS	0.9	26.1
University of Health Sciences	MOH	5.6	32.7
Calmette Hospital	MOH	28.9	63.9
Khmer Soviet Friendship Hospital	MOH	10.3	14.9
Preah Kossamak Hospital	MOH	6.4	5.4
Preah Ang Duong Hospital	MOH	2.5	1.3
National Pediatric Hospital	MOH	[7.6]	No data
National Health Product Quality Control Center	MOH	1.1	1.5
National Institute of Public Health	MOH	4.1	1.9
Royal University of Agriculture	MAFE	2.7	5.9
Prek Leap National College of Agriculture	MAFE	[1.1]	No data
Kampongcham National College of Agriculture	MAFE	1.8	0.3
Cambodian Rubber Research Institute	MAFE	1.9	3.1
Cambodian Agric. Research & Development	MAFE	17.3	0.2
National Polytechnic Institute of Cambodia	MLVT	17.0	6.8
National Social Security Fund	MLVT	1.0	47.7
National Social Security Fund for Civil Servants	MSAVYR	[2.8]	No data
National Fund for Veterans	MSAVYR	[5.5]	No data
Persons with Disabilities Foundation	MSAVYR	[2.9]	No data
APSARA Authority	OCM	69.9	No data
Royal Academy of Cambodia	OCM	[1.9]	No data
Royal School of Administration	MPF	No data	No data
Health Science Institute of the Armed Forces	MND	8.5	4.1
Royal University of Fine Arts	MCFA	[3.8]	No data
Royal University of Phnom Penh	?	No data	No data
TOTAL - ALL ENTITIES REPORTED		**206.4**	**143.8**

Subsidy includes salaries and grants for recurrent non-salary and investment expenditure.

Source: GDSPNTR 2014: Name list of Public Administration Establishments, and Report on revenue and expenditure closing balance 2013 for public administrative entities.Supplemented by GDSPNTR data on request in spreadsheet [in brackets] on 2013 subsidy for selected PAEs.

Annex 5.2: List of Public Enterprises

Name of Enterprise	Government equity share	Total revenue 2013 in KHR billion	Tax & dividend to government 2013 in KHR billion
Sihanoukville Autonomous Port	100%	146.9	17.9
Phnom Penh Autonomous Port	100%	44.4	7.7
CambodiaShipping Agency	100%	21.3	2.8
Green Trade Company	100%	15.0	0.4
Printing House	100%	11.4	2.5
Telecom Cambodia	100%	92.5	6.8
Cambodia Postal Services	100%	18.9	0.2
Construction and Public Works Laboratory	100%	1.4	0.2
Phnom Penh Water Supply	100%	160.2	10.5
Siem Reap Water Supply	100%	8.0	0.1
Electricite du Cambodge	100%	2673.5	83.8
Rural Development Bank	100%	17.6	0.9
Joint Ventures			
Cambodia Life Insurance	51%	0.9	0.0
Kampcheary Insurance	80%	13.9	1.0
Cambodia Stock Exchange	55%	No data	No data
TOTAL - ALL ENTERPRISES REPORTED		**3,225.8**	**134.9**

The RGC holds a minority share in five other commercial enterprises

Source: GDSPNTR, December 2014: Report on financial business, service and other revenue of public enterprises in 2013.

Annex 5.3: Detailed data for calculation of variance for PI-2 dim(i)

FY2011

Variance of Budget Composition in 2011 (KHR millions)						
Expenditure by Head Function	***Budget***	***Actual***	***Adjustment***	***Deviation***	***Absolute Deviation***	***Percentage***
	1	***2***	***3****	***4=2-3***	***5=abs(4)***	***6=5/3***
Education, Youth and Sport	915,898	802,394	939,344	-113,504	113,504	**12.08%**
National Defence	779,879	791,203	799,843	11,324	11,324	**1.42%**
Public Health	694,331	675,236	712,105	-19,095	19,095	**2.68%**
Interior – Security	467,904	466,417	479,881	-1,487	1,487	**0.31%**
Social Affairs and Veteran	258,249	281,366	264,860	23,117	23,117	**8.73%**
Council of Ministers	244,696	526,154	250,960	281,458	281,458	**112.15%**
National Assembly	107,894	109,077	110,656	1,183	1,183	**1.07%**
Agriculture, Forestry and Fisheriy	98,791	97,312	101,319	-1,479	1,479	**1.46%**
Economy and Finance	87,813	209,284	90,061	121,471	121,471	**134.88%**
Rural Development	86,068	268,348	88,271	182,280	182,280	**206.50%**
Labour and Vocational Training	79,570	62,508	81,606	-17,062	17,062	**20.91%**
Foreign Affairs and Int'l Cooperation	74,366	69,343	76,270	-5,023	5,023	**6.59%**
Urbanisation and Construction	58,350	55,139	59,844	-3,211	3,211	**5.37%**
Interior Administration	55,749	78,171	57,176	22,423	22,423	**39.22%**
Reserve earmark	1,953,074	857,675	2,003,070	-1,095,399	1,095,399	**54.69%**
Provincial	357,583	472,984	366,737	115,401	115,401	**31.47%**
Other 23 Ministries	597,345	1,272,026	612,636	674,682	674,682	**110.13%**
Total Expenditure Allocated	**6,917,560**	**7,094,638**	7,094,638	177,078	2,689,597	**37.91%**
Reserve unearmark	369,675	366,689				
Total Expenditure	7,287,235	7,461,327				
Variance PI-1						**2.39%**
Variance PI-2						**37.91%**
Contigency Share in total budget						**5.03%**

FY2012

Variance of Budget Composition in 2012 (KHR millions)						
Expenditure by Head Function	***Budget***	***Actual***	***Adjustment***	***Deviation***	***Absolute Deviation***	***Percentage***
	1	***2***	***3****	***4=2-3***	***5=abs(4)***	***6=5/3***
Education, Youth and Sport	1,007,626	907,813	1,040,410	-99,813	99,813	**9.59%**
National Defence	876,394	910,015	904,908	33,621	33,621	**3.72%**
Public Health	794,214	781,178	820,053	-13,035	13,035	**1.59%**
Interior – Security	522,043	549,121	539,028	27,078	27,078	**5.02%**
Social Affairs and Veteran	353,188	345,239	364,679	-7,949	7,949	**2.18%**
Council of Ministers	235,441	263,340	243,101	27,899	27,899	**11.48%**
Economy and Finance	124,707	156,602	128,764	31,895	31,895	**24.77%**
Agriculture, Forestry and Fisheriy	109,656	120,795	113,224	11,138	11,138	**9.84%**
National Assembly	108,344	108,287	111,869	-57	57	**0.05%**
Labour and Vocational Training	99,371	92,644	102,604	-6,727	6,727	**6.56%**
Foreign Affairs and Int'l Cooperation	99,153	96,293	102,379	-2,860	2,860	**2.79%**
Rural Development	95,872	248,301	98,991	152,429	152,429	**153.98%**
Urbanisation and Construction	76,132	56,593	78,609	-19,539	19,539	**24.86%**
National Election Committee	67,763	69,818	69,968	2,055	2,055	**2.94%**
Reserve earmark	1,724,991	1,019,247	1,781,114	-705,744	705,744	**39.62%**
Provincial	427,830	578,121	441,749	150,291	150,291	**34.02%**
Other 23 Ministries	734,819	1,396,767	758,726	661,948	661,948	**87.24%**
Total Expenditure Allocated	7,457,542	**7,700,174**	7,700,174	242,632	1,954,078	**25.38%**
Reserve unearmark	457,270	457,225				
Total Expenditure	7,914,812	8,157,399				
Variance PI-1						**3.06%**
Variance PI-2						**25.38%**
Contigency Share in total budget						**5.78%**

FY2013

Variance of Budget Composition in 2013 (KHR millions)						
Expenditure by Head Function	**Budget**	**Actual**	**Adjustment**	**Deviation**	**Absolute Deviation**	**Percentage**
	1	**2**	**3***	**4=2-3**	**5=abs(4)**	**6=5/3**
Education, Youth and Sport	1,119,566	1,042,643	1,048,005	-76,923	76,923	**7.34%**
National Defence	980,515	1,011,000	917,842	30,485	30,485	**3.32%**
Public Health	901,501	893,317	843,878	-8,184	8,184	**0.97%**
Interior – Security	620,125	639,571	580,488	19,446	19,446	**3.35%**
Social Affairs and Veteran	411,033	392,524	384,760	-18,509	18,509	**4.81%**
Council of Ministers	249,275	275,814	233,342	26,539	26,539	**11.37%**
Economy and Finance	236,191	208,393	221,094	-27,797	27,797	**12.57%**
Agriculture, Forestry and Fisheriy	121,191	154,398	113,445	33,207	33,207	**29.27%**
National Assembly	114,698	117,773	107,367	3,075	3,075	**2.86%**
Rural Development	109,283	338,741	102,297	229,458	229,458	**224.30%**
Labour and Vocational Training	107,407	96,603	100,542	-10,805	10,805	**10.75%**
Foreign Affairs and Int'l Cooperation	81,392	79,103	76,190	-2,289	2,289	**3.00%**
Urbanisation and Construction	79,858	56,761	74,753	-23,097	23,097	**30.90%**
National Election Committee	79,234	67,804	74,169	-11,430	11,430	**15.41%**
Reserve earmark	1,919,593	621,499	1,796,896	-1,298,094	1,298,094	**72.24%**
Provincial	520,221	599,058	486,969	78,837	78,837	**16.19%**
Other 23 Ministries	829,881	1,343,871	776,836	513,990	513,990	**66.16%**
Total Expenditure Allocated	**8,480,961**	**7,938,871**	7,938,871	-542,090	2,412,165	**30.38%**
Reserve unearmark	452,333	451,784				
Total Expenditure	8,933,294	8,390,655				
Variance PI-1						**-6.07%**
Variance PI-2						**30.38%**
Contigency Share in total budget						**5.06%**

Annex 5.4: Loans and Grants from Development Partners 2012-2014

	Development partner	2012	2013	2014	Average share
			USD million		
United Nations Agencies					
	- FAO	3.4	7.7	0.5	0.3%
	- IFAD	4.4	4.8	14.1	0.5%
	- ILO	2.1	2.0	2.5	0.1%
	- UN Women	1.4	1.7	0.8	0.1%
	- UNAIDS	0.1	0.2	0.1	0.0%
	- UNDP	17.4	16.5	20.0	1.2%
	- UNESCO	2.6	1.8	1.0	0.1%
	- UNFPA	5.0	5.3	5.7	0.3%
	- UNICEF	18.8	17.5	19.1	1.2%
	- UNIDO	1.1	1.5	1.7	0.1%
	- UNODC	0.6	0.8	0.3	0.0%
	- WFP	25.2	17.5	12.2	1.2%
	- WHO	7.4	9.7	9.9	0.6%
Int'l Financial Institutions					
	- World Bank	93.8	39.8	58.7	4.2%
	- IMF	n/a	n/a	n/a	0.0%
	- ADB	100.8	190.4	138.2	9.3%
Others					
	- Global Fund	20.1	45.4	51.6	2.5%
	- GAVI	4.9	10.7	5.5	0.5%
European Union					
	- EU/EC	41.7	37.5	73.7	3.3%
	- Denmark	4.9	0.0	0.0	0.1%
	- Finland	4.4	5.4	4.4	0.3%
	- France	24.8	17.4	62.1	2.3%
	- Germany	49.1	36.9	29.6	2.5%
	- Spain	8.8	4.1	1.6	0.3%
	- Sweden	30.2	33.8	41.0	2.3%
	- United Kingdom	28.2	13.7	0.2	0.9%
	- Other EU members	0.4	1.0	0.1	0.0%
Bilateral					
	- Australia	79.5	64.0	68.5	4.6%
	- Canada	20.5	11.0	4.5	0.8%
	- China	460.7	421.2	318.1	26.0%
	- Japan	172.3	133.2	153.3	9.9%
	- New Zealand	3.8	3.4	4.5	0.3%
	- Republic of Korea	46.2	50.2	76.5	3.7%
	- Switzerland	4.3	7.7	11.4	0.5%
	- USA	86.6	85.9	85.8	5.6%
All donors	**Sub-total**	1375.4	1299.9	1277.3	85.6%
NGOs	Core/own funding	212.3	225.8	226.1	14.4%
ALL Development Partners		**1587.7**	**1525.7**	**1503.4**	**100.0%**

Source: CDC Database as updated June 2015

Annex 6: Recommendations to address PFM weaknesses

The list below makes suggestions for addressing the weaknesses identified by the PFM Evaluation, indicator by indicator. The list does not propose any prioritization or sequencing of implementation of these recommendations, as this is an issue design of the future reform action planning beyond the scope of the PFM Evaluation.

PFM Performance Indicator		**Recommendations**
A. PFM-OUT-TURNS: Credibility of the budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	There should be a clear guideline to prepare capital budget expenditure and involvement of MoP, CDC and other LMs. Moreover, budget integration between capital and current expenditure is very important that allow LMs to determine key success indicators for policy objectives andprograms. Budget integration needs to be thought through, and the necessary activities specified.
PI-2	Composition of expenditure out-turn compared to original approved budget	Closely linking planning, policy and budgeting is one of the most important factors contributing to desirable budgetary outcome. There is need to develop medium-term expenditure framework (MTEF) and improve budget-policy linkages so LMs can use resources to serve public. Specific action planning needs first an analysis of the high variance on PI-2 (i), whether due to bad planning (and subsequent virements) or non-compliance in execution. In addition, reducing contingency is to allocate budget to the priority and clear programs that make comprehensivepreparation. Contingency of 5.3% indicates a need to change accounting treatment and charge actual expenditure to the benefitting heads.
PI-3	Aggregate revenue out-turn compared to original approved budget	Governments can create fiscal space by strengthening domestic revenue collection both tax and or non-tax revenues, by securing additional external grants, by reducing lower priority expenditure or by borrowing at home or abroad. The first priority for the government in relation to fiscal space is to reduce the fiscal deficit and rebuild the stock of government deposits. Even though the contribution of provincial revenue collection is low, it needs to strengthen; therefore, a methodology to forecast provincialrevenues, which are regularly massively under-budgeted should be developed. The same applies to non-tax revenues, which were under-budgeted 27% over the last 3 years.
PI-4	Stock and monitoring of expenditure payment arrears	To monitor the arrears, GDNT should produce the report of stock of arrears by quarter and annually. This allows top management to know whether cash flow is smooth and the reasons from which entities. This could be detailed under two activities: (1) fast-track implementation of the FMIS and its accounts payable module, and (2) interim solution through exporting KIT data to Excel. In particular, monitoring should be strengthened by - including salary and debt arrears in monitoring; - expanding monitoring to include period from date of invoice submission; - align delay monitored with payment delay stated in procurement and contract documents

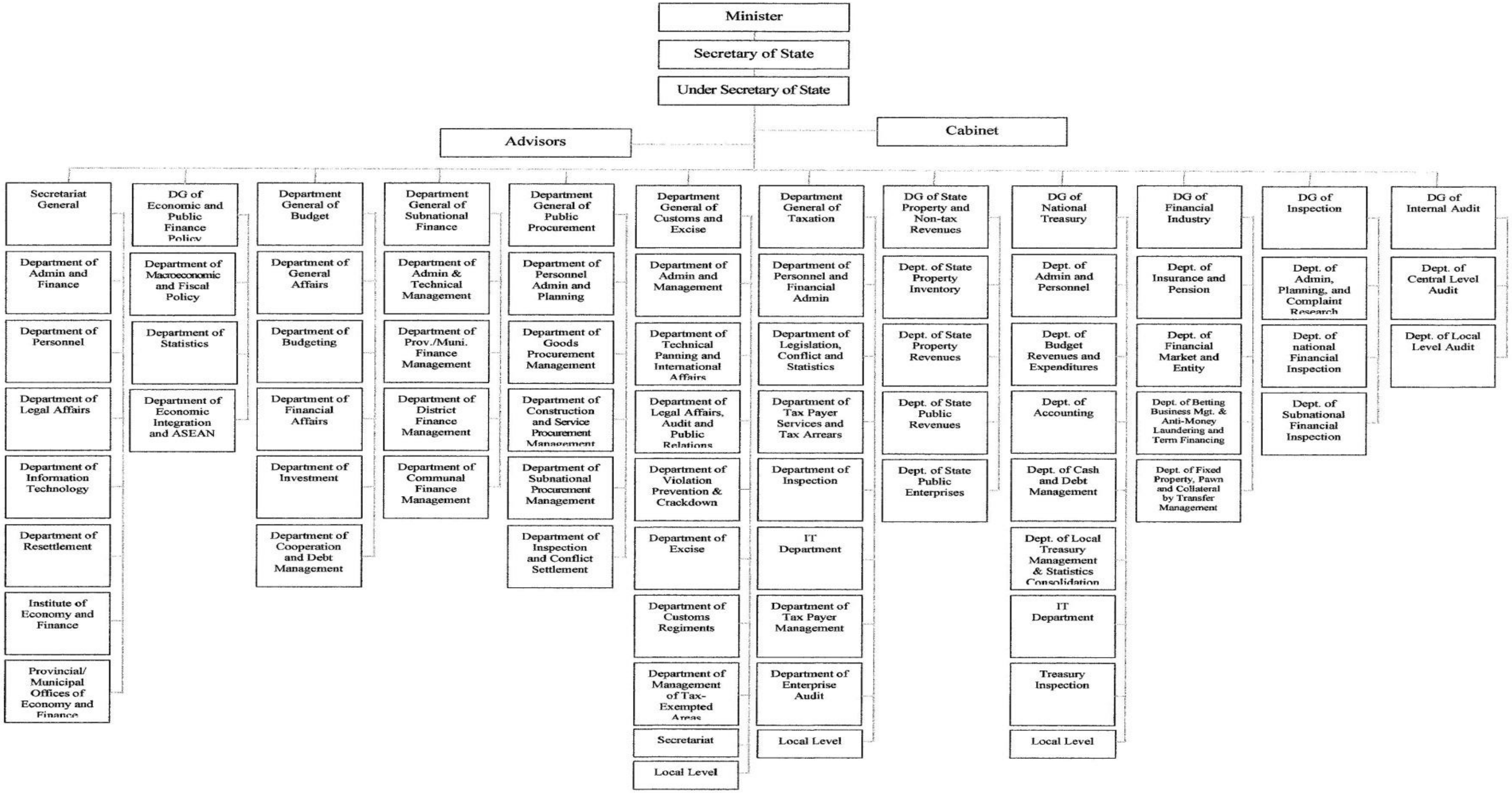
PFM Performance Indicator		Recommendations
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	All associated general departments, especially GDNT (Treasury) and GDB (Budget), should strengthen and expand the implementation of administrative, economic, and functional classifications so they are compliant with international standards, including GFS and COFOG, and should monitor and assess them and add more dimensions to Chart of Accounts to facilitate the formulation of GFS and COFOG as these will improve appropriateness and comprehensiveness of budget, such as: (1) enabling clear and comprehensive recordings and reporting of financial operations, (2) allowing better and more accurate analysis and comparison of forecasts, (3) enabling better budget formulation, monitoring and management, and (4) improving transparency and accountability of the PFM system as a whole. Based on different work operations and systems, we believe that the implementation of the above 3 classifications will have better scores after this assessment and findings. The main reform is the introduction of program budgeting. This will allow full sub-functional classification of expenditure. Reform activities include (1) rollout of implementation to all LMs, (2) inclusion of salary expenditures.
PI-6	Comprehensiveness of information included in budget documentation	To achieve the comprehensiveness of information included in budget documentation, strengthening and scaling up the implementation of 9 requirements above is very important. Particularly, capacity to include the following documents needs to be improved: 1) the current year expected out-turn and the prior year's out-turn (2) deficit financing, describing anticipated composition, (3) debt stock outstanding, including details at least for the beginning of the current year, and (4) financial assets, including details at least for the beginning of the current year.
PI-7	Extent of unreported government operations	In summary, involved units should review and reformulate system, mechanism, and procedures for recording and reporting government extra-budgetary operations, which are not reported or included in the annualbudget. The widespread non-reporting of LM revenues and expenditures needs a centralised review and top level policy analysis, then a reform program detailed for each item of non-tax revenue. Some revenues should continue to be collected and retained by the responsible LMs, but there should be information on budgeted and actual collections, and audit verification.
PI-8	Transparency of inter-governmental fiscal relations	Even though transparency of inter-governmental fiscal relations has performed better, however, some work needs to be improved and strengthened, and this includes formula for fund transfer or budget allocation to SN administration, capacity in formulation of income/expenditure report. A review of existing system and legal framework should be undertaken, and especially SN capacity related to fiscal forecasts and reporting should be upgraded. Communes and sangkats use different CoAs from central LMs. Harmonisation of CoAs across all government agencies should be a major reform. Raising PFM capacity at SN levels would be a part of this program.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	The two general departments (GDSPNTR and GDSNAF) are required to formulate mechanism, procedures, or strategy to monitor, address and control fiscal risks, especially related to forecast and formulation of income/expenditure, at these public entities, in order to avoid challenges negatively affecting the central level as awhole. Need to build capacity in fiscal risk management in the central GDs.

PFM Performance Indicator		Recommendations
PI-10	Public access to key fiscal information	According to the survey, relevant agencies should re-monitor and re-prepare its effort in publishing the 3 budget documents such as (1) External audit report, (2) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv, and (3) Resources available to primary service units (PSUs): for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics). May need changes in the law and organizational responsibilities.
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	This PI scored higher because of a clear process of budget preparation even though relevant agencies must continue to strengthen and be ready for moving to a new budget system in the near future (2020).
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	The budget preparation and implementation has performed well through the implementation of BSP, PB, and medium-term expenditure framework, though capacity of line ministries still limited; specifically, recurrent and capital budget are prepared separately in different formats. The integration of recurrent and capital budgets within overall fiscal ceilings needs to be thought through and formulated as a medium-term action plan. One activity will be the application of the CoA to capital expenditures as well as recurrent expenditures.
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	In order to have a reliable mechanism to solve a tax complaint and to ensure the justice for taxpayers, General Department of Taxation should accelerate the process for the establishment of Tax Facilitation Committee and this process is currently under way and this mechanism shall be completely implemented in the future when this committee has been established.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	To strengthen tax registration and tax declaration correctly, General Department of Taxation should take strict measures on some enterprises which have not registered. At the same time, the enforcement of punishment on enterprises which have failed to implement the obligation of tax registration and tax declaration should be strengthened and implemented consistently and justly to all taxpayers. Needs further detailing and assignment of responsibilities.
PI-15	Effectiveness in collection of taxpayments	It should take strictly measures and have immediate resolution to chronic tax arrears enterprises and strengthen arrears collection on time to ensure the budgetcredibility. Needs further detailing and assignment of responsibilities.
PI-16	Predictability in the availability of funds for commitment of expenditures	1. Even though Score “B” was given for forecast and monitoring of cash flows, formulation of cash plan report remained not comprehensive. Such report should include analysis of cash position, for example, use of cash surplus or mechanism to replenish cash when there are shortages of cash. Also, preparation of monthly cash forecast monitoring report, which includes analysis of actual cash flow against the forecast, should be done. 2. Revisions should be made to Chapter 9 to allow appropriate transfer of funds.
PI-17	Recording and management of cash balances, debt and guarantees	More frequent reconciliation of creditors.

PFM Performance Indicator		Recommendations
PI-18	Effectiveness of payroll controls	The electronic linking of LM personnel databases with the Human Resource MIS in Ministry of civil service is a high priority need. For a timely update of changes in personnel records and payroll, LM departments of personnel should review and revise their complicated procedures which require staff to show up and complete the form and to report changes in their personnel information because such information was already available at their respective personnel departments. Furthermore, MPF should remind LMs to submit their monthly tables of personnel changes on a timely basis, and a mechanism should be in place to regular monitor this to avoid huge and uncontrollable adjustments in the salary expenses.
PI-19	Competition, value for money and controls in procurement	Procurement reform is a high priority due to its enormous impact on efficiency and effectiveness of public services. The General Department of Public Procurement (GDPP) should improve public access to procurement information, and reliability and timeliness of publication of procurement plans, contract awards, and resolutions of procurement appeals; and should create independent administrative system to solve procurement complaints.
PI-20	Effectiveness of internal controls for non-salary expenditure	The implementation of the FMIS should provide accurate and up-to-date data on commitments. The payment system needs streamlining to reduce the number of steps involved and speed up settlement of invoices.
PI-21	Effectiveness of internal audit	To improve IA capacity within the context of program budget implementation, it is recommended (1) focus should first be on the internal control system in each agency, (2) IA focuses on the results and effectiveness and efficiency of resources utilization, (3) GDIA and Inspectorate functions overlap and should be merged, (4) set up an Internal Audit Committee in each LM, chaired by an experienced person from outside the LM (see IIA standards).
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	To be able to receive A in this indicator, all accounts should be verified regularly and comprehensively and clearance of outstanding in- year advances should be expedited to avoid delay or carry-over to the following year.
PI-23	Availability of information on resources received by service delivery units	To be able to receive a higher rating LMs should strengthen their data collections or accounting systems to provide more reliable information on resources in cash or kind received at primary schools and health clinics all over the country and such information should be produced in reports at least on a yearlybasis.
PI-24	Quality and timeliness of in-year budget reports	Quality of in-year budget reports should beimproved by including all donor-financed project expenditure.
PI-25	Quality and timeliness of annual financial statements	The annual statements report only revenue and expenditure, not assets and liabilities. Including assets and liabilities, which are shown in trial balances, would be a major step towards compliance with the cash-based IPSAS. This will need changes in the legal framework, development of new formats, and training.
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	No recommendations

PFM Performance Indicator		**Recommendations**
PI-27	Legislative scrutiny of the annual budget law	No recommendations
PI-28	Legislative scrutiny of external audit reports	No recommendations
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	No recommendations
D-2	Financial info provided by donors for budgeting/reporting on project/program aid	No recommendations
D-3	Proportion of aid that is managed by use of national procedures	No recommendations

Annex 7: Organogram for Ministry of Economy and Finance



Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for the Royal Government of Cambodia (central government), final report dated 31th December 2015.

1. Review of Concept Note and/or Terms of Reference

- Draft concept note[60] / terms of reference dated 20th January 2014 was submitted for review on 6th February 2014 to the following reviewers:
  1) Dr. Saravuth, Chairman of the Steering Committee of the Public Financial Management Reform, Ministry of Economy and Finance
  2) Mr. Suhas Joshi, IMF Regional PFM Advisor, South and Southeast Asia, Phnom Penh, Cambodia
  3) Mr. Christian Provoost, European Union Delegation, Cambodia
  4) Ms. Leah April, World Bank Country Office, Cambodia
  5) Asian Development Bank Country Office, Cambodia
  6) PEFA Secretariat, Washington DC, USA.
- Final concept note /terms of reference, dated 20th March 2014 was forwarded to reviewers.

2. Review of draft report(s)

- Following an internally reviewed 1st Draft report, the 2nd draft dated 8th September 2015 was submitted for external review to the following reviewers:
  7) Dr. Saravuth, Chairman of the Steering Committee of the Public Financial Management Reform, Ministry of Economy and Finance
  8) All General Departments of Ministry of Economy and Finance
  9) Major Line Ministries of the Royal Government of Cambodia
  10) Mr. Suhas Joshi, IMF Regional PFM Advisor, South and Southeast Asia, Phnom Penh, Cambodia
  11) Mr. Christian Provoost, European Union Delegation, Cambodia
  12) Ms. Leah April, World Bank Country Office, Cambodia
  13) Asian Development Bank Country Office, Cambodia
  14) UNICEF Country Office, Cambodia
  15) PEFA Secretariat, Washington DC, USA
- In addition, the 2nd draft report was presented to and discussed by stakeholders in Cambodia at a workshop on 21st October 2015.

[60] The draft concept noted also included the timetable/task/activity/dates/consolidated format for assessment and data for the PEFA assessment of Cambodia.

3. ***Review of final draft report***

    A revised final draft report dated 24th November 2015 was forwarded to reviewers including a table showing the response to all comments raised by all reviewers.

4. The information on this form, describing the quality assurance arrangements, is included in the final report of 31st of December 2015 in Box 1.1.

PEFA Assessment Report Royal Government of Cambodia,
31 December 2015

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat, January 22, 2016

Using the Performance Measurement Framework tool of Public Expenditure and Financial Accountability (PEFA) enables the Royal Government of Cambodia to evaluate the progress, challenging problems, and necessary work to revise and continue to implement the Public Financial Management Reform Program. In fact, PEFA Assessment was first used in 2010, at which the findings contributed to the formulation of the revised Consolidated Action Plan 2 (CAP2) having been implemented since early 2010. Likewise, the main objective of this 2015 PEFA Assessment is to provide an update of the 2010 PEFA report in order to take stock of achievement to date and to contribute to improving and focusing on the Consolidated Action Plan 3 (CAP3), which is being formulated during 2015. This repeat assessment would be a basis of identifying and determining the possible effects of the previous reform programs and the way forward.

The results of the assessment will be an important reference of the government, development partners, and other stakeholders in identifying the major gaps or deficiencies of the current PFM system as well as validating the effectiveness of past reforms. Analysis of these gaps or deficiencies will then assist the government to formulate future PFM reforms under CAP3, and assist the development partners as the basis of formulating and calibrating the appropriate assistance to the government, given each donor partner's areas of expertise. It will also be used as a reference for a similar assessment in the future.

General Secretariat of Steering Committee of the Public Financial Management Reform

2015