REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

ACCOUNTING AND AUDITING

Cambodia

November 2021

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PREFACE

Reports on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) assess financial reporting and auditing standards, institutions, and practices in participating countries. These reports form part of a joint initiative implemented by the World Bank and the International Monetary Fund to review the quality of implementation of internationally recognized standards and principles in 12 key areas (the ROSC program) with a view to promoting financial and economic stability.

This report provides an assessment of financial reporting and auditing requirements and practices within the corporate sector in Cambodia and sets forth areas for consideration for improving the institutional environment for accounting and auditing. The ROSC A&A uses international benchmarks of good practice governing financial reporting and auditing in the assessment, including International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). This report updates an earlier assessment which was published in 2007 and was undertaken following a formal request from the Royal Government of Cambodia.

The report was conducted as part of the Strengthening Public Financial Management & Public Sector Performance for Improved Public Service Delivery Trust Fund in Cambodia, under a multi-donor trust fund contributed to by the European Union and the Government of Australia.

ACKNOWLEDGMENTS

The ROSC A&A was conducted at the request of the Royal Government of Cambodia from November 2019 to March 2021. All findings reflect this period of the review and some stated future events may have occurred by publication date. The World Bank team was led by Tran Thi Phuong Mai (Senior Financial Management Specialist) and Andrei Busuioc (Senior Financial Management Specialist) and included Sophear Khiev (Financial Management Analyst), Michael Wells (Consultant), Darrel Scott (Consultant), and Monileak Siem (Consultant). The team worked under the direct supervision of Fily Sissoko (Governance Practice Manager, East Asia and the Pacific).

The review was conducted through a participatory process involving the World Bank Country Office in Phnom Penh and various in-country stakeholders, including the Ministry of Economy and Finance, National Bank of Cambodia, Securities and Exchange Commission, Ministry of Education, Youth and Sport, Accounting and Auditing Regulator (formerly the National Accounting Council), Kampuchea Institute of Certified Public Accountants and Auditors, Association of Banks in Cambodia, Association of Microfinance Institutions, Chartered Financial Analyst Community, auditing firms, academia, and other business communities.

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Abbreviations and Acronyms

ACAR	Accounting and Auditing Regulator (formerly the NAC)
ACCA	Association of Chartered Certified Accountants
AQMC	Audit Quality Monitoring Committee
CIAS	International Accounting Standards as adopted in Cambodia
CIFRS	Cambodian International Financial Reporting Standards
CIFRS for SMEs	Cambodian International Financial Reporting Standard for Small and Medium-sized Entities
CISA	Cambodian International Standards on Auditing
COVID-19	Coronavirus Disease 2019
CPA	Certified Public Accountant
CPD	Continuing Professional Development
CSX	Cambodia Securities Exchange
ECL	Expected Credit Loss
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
I&D	Investigation & Discipline
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
ICAEW	Institute of Chartered Accountants in England and Wales
IES	International Education Standards
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standards for Small and Medium Enterprises
IPD	Initial Professional Development
ISA	International Standards on Auditing
ISCA	Institute of Singapore Chartered Accountants
ISD	Supervision Division of the Insurance and Pension Department of the General Department of Financial Industry of the Ministry of Economy and Finance
ISQC	International Standard on Quality Control
KICPAA	Kampuchea Institute of Certified Public Accountants and Auditors
KHR	Khmer Riel (currency)

MD&A	Management Discussion and Analysis
MDI	Microfinance Deposit-Taking Institution
MEF	Ministry of Economy and Finance
MFI	Microfinance Non-Deposit-Taking Institution
MOEYS	Ministry of Education, Youth, and Sport
MRA	Mutual Recognition Agreement
MSME	Micro, Small, and Medium Enterprise
NAC	National Accounting Council (Now Accounting and Auditing Regulator (ACAR)
NBC	National Bank of Cambodia
NBFA	Non-Banking Financial Services Authority
NSDP	National Strategic Development Plan
NUM	National University of Management
PAO	Professional Accountancy Organization
PIE	Public Interest Entity
ROSC A&A	Report on the Observance of Standards and Codes - Accounting and Auditing
RULE	Royal University of Law and Economics
SERC	Securities and Exchanges Commission of Cambodia[1]
SMO	Statement of Membership Obligation
SOE	State-Owned Enterprises
USD	United States Dollar (currency)

[1] Name has subsequently been changed to the Securities and Exchange Regulator of Cambodia (SERC), however the abbreviation SERC is used throughout this document.

CONTENTS

EXECUTIVE SUMMARY

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A. Background

Economic development in the last decade

Cambodia has achieved remarkable economic development and political stabilization in recent years. Tax collection has improved as a consequence of better quality corporate financial reporting and oversight. Foreign direct investment (FDI) inflows to Cambodia have grown rapidly. Cambodia's financial system is dominated by banks, whose assets comprise more than 82 percent of the total assets in the financial system. Microfinance plays a critical role in Cambodia in social terms with a significant minority of the Cambodian population active as borrowers or depositors. The State-owned Enterprise (SOE) sector has diminished significantly since the introduction of economic liberalization in the late 1980s. With more than 500,000 established businesses, Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Cambodia's economy. The capital market is active but at an initial stage of development.

Continuous high growth has heightened demand for high quality financial reporting and auditing in the corporate sector and in the government sector. In October 2019, Moody's Investor Services affirmed Cambodia's long-term issuer rating at B2 with a stable outlook. The long-term foreign currency bank deposit ceiling is unchanged at B3. The overall B2 rating was based on Cambodia's strong revenue collection and macroeconomic stability. However, the World Bank continues to draw attention to Cambodia's poor business climate, ranking Cambodia 138th out of 190 economies in the 2019 Doing Business report and 144th in the 2020 report. To enable further economic growth, Cambodia could strengthen its legislation, improve enterprises' solvency, and simplify procedures for permits, which all rely more or less on financial reporting and oversight.

Impact of COVID-19 on the economy and demand for good corporate financial reporting

The COVID-19 pandemic has abruptly interrupted Cambodia's celebrated growth story. The country had averaged a 7.7 percent real growth rate during the last two decades. In contrast, in 2020, Cambodia's economy contracted by 2 percent, plunging into recession for the first time in three decades. The key growth drivers—construction, tourism, and merchandise exports, which together account for more than 70 percent of growth and 39 percent of total paid employment—have been severely affected. While the global economy is projected to rebound from deep recession in 2021, uncertainty about the path of recovery remains exceptionally high. For rich and poor countries alike, the transition from crisis to recovery remains very challenging. The pandemic's economic and social effects have compounded climate change impacts, which have been intensifying over time, and exacerbated trends over the past decade that threaten to erode the already diminished growth prospects in developing economies – including slowing investment, productivity, employment, and poverty reduction; rising debt; and accelerating destruction of natural capital. This will place increased pressure on Cambodia to accelerate its efforts to provide transparent and robust reporting.

Good corporate financial reporting will help attract investment to sustain and boost the country's tax revenues to fund increased public spending during and after the pandemic. The Government's medical care, social assistance, and enterprise support measures have required increased resources. Improved tax administration and a broader and deeper tax base will help generate more tax revenue. High quality and transparent corporate financial reporting helps improve corporates' access to, and lowers the cost of, capital. This supports economic growth that broadens and deepens the tax base, thus boosting the country's tax revenues. Publicly available reliable, accurate, and comparable financial statements help to foster the environment necessary for financial sector and capital market development by increasing confidence and trust among investors, lenders, and creditors. This encourages investments and job-creating business growth, which are essential for the country to overcome a post-pandemic economic crisis. It also helps to encourage enterprises to operate within the formal economy, making it easier to ensure they are paying the appropriate level of taxation and contributing to improved fiscal sustainability.

Strengthened corporate financial reporting for green, resilient, and inclusive development

Introducing sustainability reporting in Cambodia will meet the increasing demand from investors and institutions for insights into the sustainability effects of new and existing projects and activities. Internationally, the development and quality of sustainability reporting is becoming the preemptive area of focus for both PIEs and governments. Prioritizing adoption of a framework for sustainability reporting in Cambodia would provide stakeholders the opportunity to become familiar with the requirements of sustainability reporting, meeting the increasing demand from investors for sustainability information and amending behavior before this becomes a generally accepted reporting requirement.

The crisis response offers a unique opportunity to rebuild stronger, greener, and more equitable economies and institutions while leveraging the private sector. The aftermath of COVID-19 offers a chance to seek out new opportunities, including digital development, improvement to and expansions of local/regional supply chains, and adaptions to pandemic-induced changes in consumer demand, while creating jobs. Private sector solutions, innovative financing, and attracting international investment will be key to the recovery. The World Bank and partners propose a road map for recovery and growth through green, resilient, and inclusive development. Consideration of, and alignment with, the road map has the potential to provide countries with a head start in their recovery process.

B. Cambodia Report on the Observance of Standards and Codes, Accounting and Auditing 2021

This ROSC A&A report assesses the significant progress in the institutional framework for accounting and auditing since the previous ROSC A&A report in 2007. It analyses the accounting frameworks of listed companies, the banking and insurance sectors, SOEs, and MSMEs. Improvements to the accounting and financial reporting framework are believed to have contributed to improved tax collection and increased tax revenue from 10.2 percent of GDP in 2007 to 17.8 percent in 2018. The current report seeks to support the ongoing

development of the financial reporting institutional framework in line with Cambodia's National Strategic Development Plan (NSDP) 2019-2023, which features "good governance" as a cross cutting theme. Improved corporate financial reporting capacity can strengthen corporate governance, improve transparency, and raise the quality of financial information and thereby encourage a more active and dynamic private sector as an engine for economic growth making Cambodia more attractive to investors.

The report was conducted at the request of the Government of Cambodia. The data and information used for the review were gathered from ROSC A&A 2.0 diagnostic questionnaires completed by stakeholders; by reviewing related documents; and through interviews with the main stakeholders from regulators, professional accountancy organizations (PAOs), auditing firms, the financial analyst community, banks, and academia. The report summarizes key findings, identifies gaps, and makes recommendations for consideration by the authorities to improve alignment with international standards and good practice. Unless otherwise specified, data and statistics quoted in this report relate to the 2019 calendar year. This reflects the data that was available and/or applicable at the time the analysis was done.

Progress since 2007 ROSC A&A Report

Achievements

Through the significant efforts of the Ministry of Economy and Finance (MEF) and regulators, the country's institutional accounting system, almost non-existent in 2007, is established. Operational and regulatory processes are being established and bedded down. International standards such as IFRS[2], the IFRS for SMEs[3], and International Standards on Auditing[4] (ISA) have been adopted in full. Enforcement processes are being established for the economic sectors which have significant public interest: banks and financial institutions, insurance companies, entities with stocks or bonds listed on the CSX, and MFIs. Accounting and auditing standard setting and audit oversight bodies have been established. Corporate governance concepts have been introduced. Sector regulators such as NBC, the Supervision Division of the Insurance and Pension Department of the General Department of Financial Industry of MEF (ISD), and SERC have provided guidance on financial reporting and auditing and have monitored the periodical reporting. This should be further improved with the introduction of an independent regulatory body, established by the Law on the Establishment and Functioning of a Non-Banking Financial Authority (NBFA), that was passed on January 16, 2021. NBFA is to operate as a fully independent authority for the non-banking sector taking on the responsibilities in this area of ISD, SERC, and the Accounting and Auditing Regulator (ACAR), formerly the National Accounting Council (NAC). NBFA is governed by a Board including the Minister of Economy and Finance, representatives from Ministry of Economy and Finance, representative from National Bank of Cambodia, representative from Council of Ministers,

[2] Adopted without modification and renamed as Cambodian International Financial Reporting Standards (CIFRS)
[3] Adopted without modification and renamed as Cambodian International Financial Reporting Standard for Small and Medium-sized Entities (CIFRS for SMEs)
[4] Adopted without modification and renamed as Cambodian International Standards on Auditing (CISA)

representative from Ministry of Commerce, representative from Ministry of Justice, the Director General of NBFA, the Director-General of the Cambodian Insurance Regulator, the Director-General of the SERC, the Director General of the Social Securities Regulator, the Director General of the Trust Regulator, the Director General of the Real Estate and Pawnshops Regulator, the Director-General of the ACAR, and Independent professionals

The legal framework for accounting and auditing has moved toward full adoption of international standards. MEF started to introduce CIFRS and the CIFRS for SMEs in 2009 and CISA in 2010. Since its establishment in 2011, CSX has fully adopted CIFRS as a requirement for all its listed entities. Bank and insurance regulators, after some postponement to prioritize prudential reporting, enacted the full adoption of CIFRS for general purpose financial statements of banks, microfinance deposit-taking institutions (MDIs), and insurers from financial year 2019. MFIs were required by NBC to fully adopt the CIFRS for SMEs in the same year. The Law on Accounting and Auditing (2016) mandates ACAR to set accounting and auditing standards, avoiding the override of other prudential or regulating guidelines. The Law requires every enterprise to prepare annual financial statements, provides that the accounting and auditing professions in Cambodia are governed and supported by only one professional body, the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA), and requires professional licensing of all accounting or auditing practitioners.

A public audit oversight body has been established and is functional. The Audit Quality Monitoring Committee (AQMC) was established in 2016 comprising members from MEF, NBC, SERC, KICPAA, and other stakeholders, with an annual recurring budget allocated by MEF. AQMC's quality review methodology and manual have been developed in accordance with ISA and International Standard on Quality Control (ISQC) 1 with assistance from donors and professional bodies. AQMC has conducted 3 annual review missions. Starting from 2021, the review results will be legally enforced, and investigations and sanctions will be applied to firms who "fail" the review.

A new certified public accountant (CPA) program for Cambodia was initiated in 2021. The country has previously relied on qualification from foreign professional bodies to grant audit and accounting licenses. The new program is led by the Secretary of State of the MEF and the Chair of the ACAR and includes representatives from KICPAA, SERC, Ministry of Labor and Vocational Training, NBC, Ministry of Education, Youth, and Sports (MOEYS), and the Cambodian Higher Education Associations[5]. KICPAA received technical assistance from the Institute of Chartered Accountants in England and Wales (ICAEW) to develop training materials and an exam question bank for this program.

Remaining challenges

Some recommendations from the 2007 ROSC A&A are not yet implemented, or only partially implemented due to limited resources:

- Absence of a proper filing system to monitor the submission and quality of annual financial statements of all enterprises preparing general purpose financial statements.

[5] The AQMC and NCPA Committees are in the process of being changed.

ACAR initiated an e-filling system in July 2021, after testing from late 2020. The financial statements of enterprises (approximately 650 enterprises) have successfully been submitted and 750 enterprises have been standing by.

- Public disclosure of annual financial statements by several banks, MFIs, and insurers is still not fully compliant or timely.[6]
- Financial transparency and adequate financial disclosures should be required and enforced for wholly owned SOEs to facilitate good governance, fiscal discipline, and optimum allocation of scarce resources[7].
- ACAR has recently established a function to review enterprises' financial statements. The existing reviews conducted by regulators (NBC, SERC, ISD) does not focus on compliance with applicable accounting and auditing standards.
- AQMC faces budget challenges to ensure independent experienced qualified reviewers can be hired and retained.
- Membership of international professional organizations is still pending. KICPAA should work towards becoming a full member of the International Federation of Accountants (IFAC) and AQMC should become a member of the International Forum of Independent Audit Regulators (IFIAR).
- Recent surveys by international organizations revealed Cambodia still has a serious shortage of public accountants in terms of both quantity and quality. The average percentage number of accountants in the population for ASEAN countries is 0.027%, but in Cambodia only 0.002% population are accountants. Interviews held with employers, which included accounting firms and NBC, provided evidence of the inadequate knowledge and skills of accounting graduates, for whom extensive in-house training is required upon commencement of employment. Root causes for this shortage have been the absence of a national competency framework, lack of a national CPA program, and shortage of modern training approaches, and are in part being addressed by the recent establishment of the National CPA program.
- Curricula for accounting bachelors' degrees in most universities are not in line with international good practices and there is a lack of modern accounting textbooks in the local language.

Findings

An overall assessment of key accounting and auditing performance indicators is provided below, which confirms the remaining challenges.

[6] CIFRS/CIFRS for SMEs financial statements of several MFIs and insurers are not fully disclosed to public or are only disclosed as abridged versions. Some entities reviewed published financial statements after the required date.

[7] Article 4, Prakas no. 563 (2020) on *Submission of Annual Financial Statements for Independent Audit* mandatorily requires all SOEs to get their financial statements independently audited.

Performance indicators	Cambodia Rating[8]	Maximum rating
1. Financial Reporting and Auditing Standards[9]	**4**	**4**
A.1. Financial reporting standards	*4*	*4*
B.1. Auditing standards	*4*	*4*
2. Financial Reporting and Auditing of Listed Companies	**2.9**	**4**
A: Financial reporting and auditing requirements for listed companies	*3.3*	*4*
B: Monitoring and enforcement of the financial reporting requirements of listed companies	*2.5*	*4*
3. Financial Reporting and Auditing for Banks	**2.8**	**4**
A: Financial reporting and auditing requirements for banks	*2.7*	*4*
B: Monitoring and enforcement of the financial reporting requirements of banks	*2.8*	*4*
4. Financial Reporting and Auditing for Insurance Companies	**2.4**	**4**
A: Financial reporting and auditing requirements for insurance companies	*2.3*	*4*
B: Monitoring and enforcement of the financial reporting requirements of insurance companies	*2.5*	*4*
5. Financial reporting and auditing exemptions and simplifications for commercial entities, including SMEs	*3*	**4**
A: Financial reporting and auditing exemptions and simplifications for commercial entities, including SMEs	*3*	*4*
6. Accountancy Profession	**-**	**-**
A: International education standards	*Partially Adopted*	*Adopted*
B: Code of ethics for professional accountants	*Partially Adopted[10]*	*Adopted*
C: Investigative and disciplinary system	*Not Adopted*	*Adopted*
7. Audit Public Oversight	**3**	**4**
A: Audit oversight system	*2.8*	*4*
B: Audit quality assurance	*3.3*	*4*
C: Audit quality investigations and sanctions	*3*	*4*

Key Recommended Areas for Consideration

[8] 1 = Minimum score; criteria for "2" rating not met
2 = Initial steps taken towards alignment with international good practice; however, significant gaps exist
3 = Some alignment with international good practice; however, gaps remain
4 = Substantial alignment with international good practice

[9] This performance indicator relates to the adoption of international standards, performance indicators 2,3 4 and 5 relate to implementation and application of those standards.

[10] The MEF has recently announced the full adoption of Code of Ethics for Professional Accountants issued by IFAC including current and future updates if any, in line with Prakas 779 (2020) on *Implementation of the Code of Ethics for Certified Public Accountants and Auditors in Cambodia*.

Strengthen legal requirements toward international good practices

Having established a fundamental institutional and regulatory system for the accounting profession, the legal framework in Cambodia should now be further strengthened to introduce and enforce international good practices. With the high-speed development of the economy and hence increasing complication of business transactions and risks, the legal framework needs to be enhanced in line with current international best practice. The after-effects of COVID-19 will place increased pressure on the robustness and transparency of reporting frameworks and enforcement. Clarification, boundary, and enforcement provisions should be added. This report has identified a number of areas which would benefit from new or revised legislation:

- **General purpose financial statements**[11] for use by the public and decision makers should be clearly distinguished from prudential/regulatory reporting, this will also help better meet the different needs of government authorities, such as tax authorities and sector regulators, and the public.
- **A differentiated financial reporting framework**[12] should be developed to give simplification and exemption to MSMEs. CIFRS/CIFRS for SMEs general purpose financial statements should only be required for entities above a defined threshold. A simplified financial reporting framework could be developed following the experience of other countries or based on the Micro Accounting Model developed by the Institute of Singapore Chartered Accountants (ISCA)[13] for micro entities, small entities, and some medium sized entities with limited sources of funding and limited public interest. ACAR is developing a draft standard for entities which are 1) entities who have accounting records but do not prepare financial statement in compliance with any stated standards, 2) entities who use Cash-Basis for their accounting records, and 3) entities who are not obliged to submit their financial statements for audit. A simplified financial reporting framework does not usually include consolidation requirements, specifies significantly fewer disclosures, and is aligned to the tax legislation as much as possible. External audits and publication requirements in respect of small entities could be voluntary but encouraged. Micro entities which pay corporate income taxes based on percentage of revenue could be exempted from annual general-purpose financial statements and required to submit only tax returns.

[11] This term is used to describe financial statements that are prepared for a broad group of users and are distinguished from special purpose financial statements that are prepared for specific users, such as banks, tax authorities and regulators.
[12] The report *Cambodia's Future Jobs: Linking to the Economy of Tomorrow*, 2018, written by a World Bank team discusses in part the need to streamline procedures and reduce the costs of establishing and expanding SMEs https://documents1.worldbank.org/curated/en/224811567668159930/pdf/Main-Report.pdf
[13] http://www.afa-accountants.org/files/micro_accounting_model_(mam)-2017_final.pdf

- **Financial transparency and adequate financial disclosures**[14] should be required and enforced for wholly owned SOEs to facilitate good governance, fiscal discipline, and optimum allocation of scarce resources. A recent amendment to regulations requires the audit of SOE financial statements[15].

- **The World Bank previously advised that a proper filing system** should be established and enforced as a single repository for all enterprises that are required to prepare general purpose financial statements to submit those annual financial statements to government authorities. ACAR initiated an e-filling system in June 2021. The financial statements of enterprises (approximately 650 enterprises) have successfully been submitted and 750 enterprises have been standing by for submission.. This system will help to monitor large non-listed companies and larger SMEs, which are significant in the economy but may not currently be subject to financial reporting disclosure requirements. Such monitoring should include checks on application of the appropriate financial reporting framework, compliance with requirements for financial statements to be audited, and completeness of filed financial statements. Entities that are not required to prepare general purpose financial statements, including micro enterprises which pay corporate tax as a percentage of revenues, could be exempt from the requirement. Government authorities should review financial statements against applicable financial reporting standards.

- **A Code of Corporate Governance**[16] should be issued. Corporate governance in Cambodia is currently fragmented in different Prakases issued by various regulators. A new Code will ensure consistency and systematic monitoring of compliance. PIEs such as banks, financial institutions, insurance companies, and entities having stocks or bonds issued to the public should prepare and publish an annual self-assessment of their compliance with the Code, normally as part of the annual report.

- **Systematic collaboration between regulators and external auditors** should be established. Under the current legal framework, regulators are authorized to contact auditors and request clarification in exceptional cases but there are no requirements for periodic meetings or intervention in audit planning. Collaboration should be mandated in regulations and set out in terms of reference with appropriate outcomes and follow up actions.

- **Audit firm rotation requirements** should be reassessed. Current regulations require rotation of audit firms every three years and cooling-off periods of three years for banks and financial institutions, and every five years for listed companies but do not

[14] The World Bank research report *Evidence and Learning from Cambodia's Implementation of a Social Accountability Framework* stresses the importance of financial data for accountability https://documents1.worldbank.org/curated/en/589721622805294604/pdf/Evidence-and-Learning-from-Cambodia-s-Implementation-of-the-Social-Accountability-Framework-ISAF.pdf

[15] Article 4, Prakas no. 563 (2020) on *Submission of Annual Financial Statements for Independent Audit* mandatorily requires all SOEs to get their financial statements independently audited.

[16] In 2016, the IFC (a member of the World Bank Group), signed a memorandum of understanding with the SERC to develop a roadmap for strengthening the country's corporate governance policies and practices.

include separate requirements on rotation of individual audit partners[17]. Good practices recommend rotation of both audit engagement partners and firms, with a longer period applied for the firms.

- **Transparency reports** should be required at least annually from audit firms that audit the financial statements of PIEs. There is currently no legislative requirement for audit firms of PIEs to prepare an annual transparency report. Good practices recommend audit firms that carry out statutory audits of PIEs to make public an annual transparency report, at the latest four months after the end of financial year, which should remain available on the audit firm's website for at least five years from the day of its publication.
- **Professional indemnity insurance** should be legally enforced. Current regulations do not require the auditor or audit firm to have professional indemnity insurance. While audit firms that are part of international networks follow the network policy to buy insurance, smaller local audit firms have no pressure or incentive to do so. This leaves uncovered risks with audit firms and their clients, and hence to the economy in case of audit default. Legal enforcement of professional indemnity insurance will address this issue.

Optimize regulators' monitoring to improve the quality of financial statements

Regulators' monitoring of annual financial statements should include their review against applicable financial reporting standards. Regulators such as NBC, SERC, ISD set a good practice of receiving financial statements of entities under their supervision within three months after financial year end. Those financial statements are reviewed by designated teams within the regulators but focus on prudential reporting. Ensuring financial statements' compliance with recognized accounting standards, including adequacy of disclosures and information, is a critical role for regulators to safeguard the public interest and enhance entities' transparency. This review could be by sector regulators (NBC, SERC, ISD) or centralized at ACAR within the new NBFA. Regulators' findings could also trigger actions by AQMC related to the quality of audits. Resource constraints and lack of capacity are in part a cause of the lack of focus on the compliance review of financial statements and would also need to be addressed.

Consideration should be given to rationalizing the audit threshold to exempt the smallest entities. The existing audit exemption threshold may place an unnecessary burden on micro and small enterprises who have insignificant demand for audit reports. Furthermore, the audit fees charged for those small audit assignments are often too low to finance a proper audit. As a result, the audit assurance can be diluted. The threshold should therefore be reconsidered to focus the scarce accounting and auditing resources of the country on public interests and release MSMEs from an unnecessary burden. The threshold should be subject to consultation,

[17] The Law on *Accounting and Auditing* (2016) defines an auditor as a 'natural person and legal entity who provide the auditing service and is member of the professional body of accounting and audit'.

taking into consideration the size of the sector, its available resources and the size of the economy.

The relatively new AQMC needs strengthening, both to increase its available resources and to establish legal enforcement of its findings. AQMC only has resources to perform quality assurance on auditors of PIEs every three years and on other auditors every six years. Most of the review team are not permanent staff and include practitioners which could result in independence issues. AQMC need a sustainable financing mechanism that will ensure adequate resources to fulfill its functions. AQMC findings also need to be legally enforced.

Enhance and improve the accounting profession

The new National CPA Program launched in February 2021 further raises demand for an internationally recognized professional accounting body in Cambodia. KICPAA is currently an affiliate member of IFAC. It has not yet achieved full compliance with IFAC statements of membership obligations (SMO) including on code of ethics, investigation and discipline (I&D) system, and quality assurance arrangements[18]. The current Code of Ethics was issued in 2005 and is not in line with the most recent International Ethics Standards Board for Accountants (IESBA) Handbook (2018). ACAR, AQMC, and KICPAA need to cooperate and ensure the effectiveness of those functions so that Cambodia can comply with all requirements to become a full member of IFAC. Upon achieving full IFAC membership, Cambodia should establish mutual recognition agreements (MRAs) with other countries. The MRAs will help to reduce costs, increase efficiency and competitiveness, and add more value to Cambodia's qualifications.

National Education Board led reform of Cambodian universities accounting education should be advanced. Membership of the Board comprises a broad range of stakeholders including representatives from ACAR, SERC, higher education institutions, and NBC. With limited resources and modest tuition fees, the accounting education sector needs significant support and leadership to catch up with the growing demands of the economy. The following steps are recommended to improve the competence and readiness for work of students after graduation:

- **A professional development program** for both accounting bachelor undergraduates and qualified accountants should be designed and organized by universities and KICPAA. Once the gaps in current programs have been determined, the proposed steps to be followed are: (i) establish the scope of program elements to be redesigned; (ii) design new elements and map competencies; and (iii) develop new program elements and update mappings.
- Universities need to improve **teaching resources and teaching methods**, including real world learning opportunities. Textbooks, digital platforms, and accounting and auditing software for teaching are important to deliver the competency framework.

[18] The MEF has recently announced the full adoption of Code of Ethics for Professional Accountants issued by IFAC including current and future updates if any, in line with Prakas 779 (2020) on *Implementation of the Code of Ethics for Certified Public Accountants and Auditors in Cambodia*.

Teachers should be equipped with the skills and competencies to develop their own teaching materials and resources including lesson notes, assignments, examinations, and case studies. University education should include internships, there should be greater involvement of employers in setting the curriculum, and part time teaching by practitioners should be encouraged.

- Once a competency framework for accounting and auditing degrees has been developed and adopted, the National Education Board should issue criteria for MOEYS and KICPAA to **accredit the university programs**. This will provide incentives for universities to invest and improve their training quality, as well as protect learners' interests.

A national professional competency framework with distinguished competence requirements among different types of accountants should be introduced and enforced. This framework, to be issued by National Education Board, should define the competency requirements for private sector accountants, public sector accountants, external auditors, internal auditors, and board and audit committee members. In addition to the competency framework, detailed competency maps should link it to formal education and practical experience programs that are designed to develop the competence of aspiring professional accountants. The competency framework and competency maps should provide a breakdown of the competencies and skills which are to be acquired at different levels including university education, professional education, practical experience, and through continuing professional development (CPD). Given the current gaps in capacity of professional accountants in both the corporate and public sectors, a well-developed, properly monitored, and legally enforced national competency framework for different types of accountants is a high priority. Consideration should be given to creating and launching an Accounting Technician Qualification as part of the framework. This could create additional capacity at the technician level and in so doing could relieve some of resource constraints on the existing skill base. KICPAA and regulators could consider whether and how they support this and those that qualify.

Summary of recommended areas for consideration

Strengthen legal framework	Responsible	Dependencies	Implementation period
1. Distinguish general purpose financial statements from prudential/regulator reporting	NBFA and NBC	Update existing regulations to clarify IFRS/regulatory conflicts and clearer attestation in financial statements.	2023 - 2025
2. Implement a differentiated further simplified financial reporting framework for MSMEs	NBFA	Require update to regulations to provide a simplification and exemption for MSMEs with attendant consultation on threshold and reporting framework. This process has already commenced.	2023 - 2025
3. *Require and enforce financial transparency and disclosures for wholly owned SOEs*	National Audit authority	Requires robust enforcement of existing regulations, and consequential IFRS skilled resources.	2023 - 2025
4. *Establish and implement an improved (digital) filing system for submission of annual reports*	Ministry of Economy and Finance (MEF)	Introduced in July 2021, progress to be monitored.	2021 - 2023
5. Issue a unified code of corporate governance	MEF	Requires consolidating existing frameworks. Significant work has been done, but consultation will be required.	2024 - 2026
6. Introduce systematic collaboration between regulators and external auditors	NBFA and NBC	Legal framework already in place, so collaboration requires mainly administrative decisions and appropriate resourcing.	2022 - 2024
7. Reassess audit firm rotation requirements	NBFA and NBC	Requires changes to regulations and attendant consultation	2023 - 2024
8. Require transparency reports from audit firms that audit PIEs	KICPAA	Will require significant development and consultation.	2024 - 2025
9. Legally enforce professional indemnity insurance	KICPAA	Legal framework exists, requirement is for administrative enforcement	2022 - 2023

Optimise regulatory reporting	Responsible	Dependencies	Implementation period
1. *Regulatory monitoring should include review against applicable financial reporting standards*	NBFA and NBC	Will require significant resources and/or upskilling. ACAR has established a compliance department tasked with this responsibility.	Ongoing
2. Reconsider existing audit requirement thresholds to provide relief for smaller entities	NBFA	Require update to regulations, will likely require consultation for both threshold and reporting framework.	2023 - 2024
3. *Strengthen AQMC for an effective audit oversight, both to increase resources and establish legal enforcement*	MEF	Will require significant resourcing and/or upskilling. This is in process.	2025 - 2026

Enhance and improve the profession	Responsible	Dependencies	Implementation period
1. *Enhance KICPAA as an internationally recognized professional accounting body*	KICPAA	Opportunities exist for access to, participation in and accreditation from international bodies. Will require upskilling and/or resourcing. The recent formation of the National CPA program is expected to in part address skills and resource shortages.	2023 -2025
2. *Improve accounting education in universities to provide the economy with competent resources* • *NEB led reform of accounting education should be advanced* • *A national professional competency framework should be introduced and enforced*	NEB, MEF	Will require significant resourcing and/or upskilling. Will also likely involve significant funding and consultation.	2025 - 2026

Recommendations in italics are carried over from the 2007 report

I INTRODUCTION

I INTRODUCTION

COUNTRY BACKGROUND

1. **Cambodia has achieved remarkable economic development and political stabilization in recent years.** In 2000, Cambodia was classified a 'post-conflict and low-income country' of 13.4 million people with GNI of USD 300 per capita and, in 2004, a population poverty rate of 53 percent. However, from 2015, Cambodia achieved a 'lower middle-income country' classification, with GNI per capita of USD 1,060. By 2019, the GNI per capita rose to USD 1,530 and Cambodia's poverty rate reduced to 10 percent.

2. **The capital market is at initial stage of development.** At April 2021 there were 203 PIEs in Cambodia, including 65 banks, 83 microfinance institutions, 15 leasing companies, 33 insurance companies, and 7 listed companies. CSX was incorporated in 2010 and started trading in 2012, with total market capitalization reaching USD 2.3 billion in April 2021, approximately 8 percent of GDP. SERC is established under the chairmanship of the Minister of Finance. In 2018 a bond market was initiated, as of April 2021 there were 6 bond issuers. The SERC is working toward the issuance of Cambodia's first government bond by 2022.

3. **Tax collection has improved as a consequence of better quality corporate financial reporting and oversight.** Cambodia's tax revenue as a percentage of GDP increased from 10.2 percent in 2007 to 17.8 percent in 2018, largely attributed to improved tax administration. This progress is correlated to the Government's reform of Cambodia's accounting and financial reporting framework, including adoption of IFRS in 2012, indicating benefits to the domestic economy of increased transparency and improved corporate financial information.

4. **FDI inflows to Cambodia have grown rapidly.** Annual growth of approximately 12 percent per year has resulted from sound macroeconomic policies, political stability, regional economic growth, and an open investment market. Total value of FDI in Cambodia reached USD 3.5 billion in 2019, from as low as only USD 815 million in 2008. Inflows in finance and real estate are increasing. FDI is concentrated in the financial, telecommunications, and manufacturing sectors, including beverage, garment, and cement products**.**

5. **Cambodia's financial system is dominated by banks, whose assets comprise more than 82 percent of the total assets in the financial system.** Total assets of banks reported in the NBC Annual Report 2019 had reached USD 42.2 billion, equivalent to 155 percent of GDP. The increasing maturity of the financial sector was evidenced by the public's improved understanding of financial services, the expansion of financial intermediation, and the increasing diversity of financial products and services. Foreign banks and branches are permitted to register and operate in the country. 44 foreign-owned financial institutions operated in Cambodia in 2019.

6. **Microfinance is currently playing a critical role in Cambodia in social terms.** 15 percent of the Cambodian population are active microfinance borrowers, while more that 20 percent are depositors. Microfinance total assets were USD 8.8 billion as at end of 2019.

7. **The SOE sector has diminished significantly since the introduction of economic liberalization in the late 1980s.** In 1989, there were 187 wholly owned SOEs in Cambodia. By the end of 2000, 160 had been privatized, of which 139 were leased to the private sector, 12 transformed into joint-ventures, eight sold, and eight liquidated (OECD, 2017). By the end of 2018, only seven remained fully state-owned. The Government has expressed commitment to continue to reform the SOE sector. SOEs with sound financial performance are encouraged to list on the stock market or attract private investors.

8. **MSMEs play a crucial role in Cambodia's economy.** With more than 500,000 established businesses, the 2018 Annual Report of the Ministry of Industry, Science, Technology, and Innovation indicated that MSMEs accounted for 70% of employment, 99.8% of companies, and 58% of GDP. According to the National Institute of Statistics, around 72 percent of Cambodian enterprises are family-run businesses with one to three employees. MSMEs rely on personal savings and informal sources of finance to start or expand their businesses.

IMPACT OF COVID 19 ON THE ECONOMY AND CORPORATE FINANCIAL REPORTING

9. **The COVID-19 pandemic has abruptly interrupted Cambodia's celebrated growth story**. The country had averaged 7.7 percent real growth rate during the last two decades. In contrast, in 2020, Cambodia's economy contracted by 2 percent, plunging into recession for the first time in three decades. The key growth drivers—construction, tourism, and merchandise exports—which together account for more than 70 percent of growth and 39 percent of total paid employment, have been severely affected.

10. **Government support to the affected population has been unprecedented, at up to 5 percent of GDP.** A broad package of support includes health-related spending and income assistance, equity injections, low-interest rate loans and loan guarantees, development spending, and tax relief. The government's large fiscal support program is expected to turn the budget from a surplus in 2019 into a deficit in 2020.

11. **With the easing of social distancing measures, Cambodia's domestic economic activity is gradually returning to normal**, other than for the periodic effects of successive waves. Domestic demand, including internal travel and tourism, is picking up. In October 2020, Cambodia and China signed the Cambodia-China Free Trade Agreement, which is expected to enter into force in 2021. In addition, the benefits of being a member of the Regional Comprehensive Economic Partnership—the largest free trade area in the world, which was signed in November 2020—should begin to flow, starting in 2021. While actual FDI declined in 2020, there are some positive signs that FDI inflows are picking up and becoming more diversified.[19]

[19] Cambodia Economic Update, The World Bank, November 2020
http://documents1.worldbank.org/curated/en/986491608013945613/pdf/Cambodia-Economic-Update-Restrained-Recovery-Special-Focus-Adapting-to-COVID-19-in-an-Uncertain-World.pdf

12. **The aftermath of COVID-19 offers a unique opportunity to rebuild a stronger, greener, and more equitable economy and institutions while leveraging the private sector**. The **crisis response** offers a chance to seek out new opportunities, including digital development, improvement to and expansions of local/regional supply chains, and adaptions to pandemic-induced changes in consumer demand, while creating jobs. Private sector solutions, innovative financing, and attracting international investment will be key to the recovery. The World Bank and partners propose a road map for recovery and growth through green, resilient, and inclusive development. Consideration of, and alignment with, the road map has the potential to provide countries with a head start in their recovery process.

13. **Late submission of statutory annual audited financial statements has been observed during the COVID-19 period.** One listed company, and several banks, financial institutions, and insurance companies could not submit audited 2019 annual financial statements to the regulators on or before 31 March 2020 as statutorily required. Many MFIs finalized the financial statements in May or June 2020. 2019 was the first year for banks, insurance companies and MFIs to adopt CIFRS or the CIFRS for SMEs, and finalization of accounts occurred during the initial outbreak of COVID-19, although it is not clear to what extent these factors contributed to late submissions.

14. **COVID-19 impacts were not adequately reported as subsequent events in entities' 2019 financial statements.** Although the reporting date (31 December 2019) of the financial statements reviewed in this ROSC is earlier than 12 March 2020 (when the World Health Organization declared the COVID-19 outbreak a pandemic)[20], the pandemic has had implications for those financial statements in light of its disruption to international global supply chains and tourism flows that underpin significant parts of Cambodia's economy. In particular, the potential effects of the pandemic must be considered by management when performing going concern assessments, in making disclosures about events after the reporting period and regarding any material uncertainties about an entity's ability to continue as a going concern. However, some entities reviewed disclosed no significant events after the end of the reporting period. Most other entities reviewed provided only inadequate boilerplate disclosures.

LINKAGE OF THIS REPORT TO CAMBODIA'S REFORM AGENDA

15. **This ROSC A&A seeks to assist with the further development of the financial reporting institutional framework in Cambodia.** High quality financial reporting contributes to promoting private sector growth by allowing investors to evaluate corporate prospects and make informed investment decisions, thus contributing to attract foreign direct investment.

16. **Strengthening corporate financial reporting and auditing is aligned with Cambodia's NSDP 2019-2023 which features "good governance" as a cross cutting theme.** The NSDP

[20] Coronavirus disease (COVID-19) outbreak WHO announces COVID-19 outbreak a pandemic (see http://www.euro.who.int/en/health-topics/health-emergencies/coronavirus-covid-19/news/news/2020/3/who-announces-covid-19-outbreak-a-pandemic)

includes three pillars: (i) promote state efficiency and boost private sector development; (ii) support the development of human capital; and (iii) improve agricultural productivity and strengthen the sustainable use of natural resources. Investing in the development of corporate financial reporting capacity is essential to strengthen corporate governance, and to improve transparency and the quality of private sector management and financial information to achieve the objectives set by the Government in the NSDP. Those objectives include: i) private sector to be more active and dynamic as an engine for economic growth; and ii) Cambodia to be an attractive and competitive destination for investment in the region. The Government's priority to strengthen corporate governance to promote the health and growth of the private sector and corporate social responsibility is also explicitly stated in the NSDP.

17. **The objective of becoming an upper-middle income country and achieving the United Nations Sustainable Development Goals by 2030 requires good corporate financial reporting.** The achievement of the Goals relies on dramatically increased public spending, which in turn needs to be funded by improved tax administration and a broader and deeper tax base. Corporate financial reporting quality and transparency help to improve corporates' access to capital and lowers the cost of capital, thus enabling the economic growth that broadens and deepens the tax base thus boosting the country's tax revenues. The increased transparency might also contribute towards strengthening the tax administration system, that could potentially reduce tax evasion.

18. **Continuous high growth in FDIs has heightened demand for high quality financial reporting and auditing in the corporate sector and in the government sector.** Cambodia encourages foreign investment, offers incentives to foreign investors, and has focused on its special economic zones to attract FDI. However, the World Bank continues to draw attention to Cambodia's poor business climate, ranking Cambodia 138th out of 190 economies in the 2019 Doing Business report and 144th in the 2020 report. In October 2019, Moody's Investor Services affirmed Cambodia's long-term issuer rating at B2 with a stable outlook. The long-term foreign currency bank deposit ceiling is unchanged at B3. The overall B2 rating was based on Cambodia's strong revenue collection and macroeconomic stability. However, there are several potential threats such as financial system risks, a weak institutional framework, low incomes, and a fractious political environment, as assessed by the U.S. Department of Commerce in 2018. To enable further economic growth, Cambodia could strengthen its legislation, improve enterprises' solvency, and simplify procedures for permits, which all rely more or less on financial reporting and oversight.

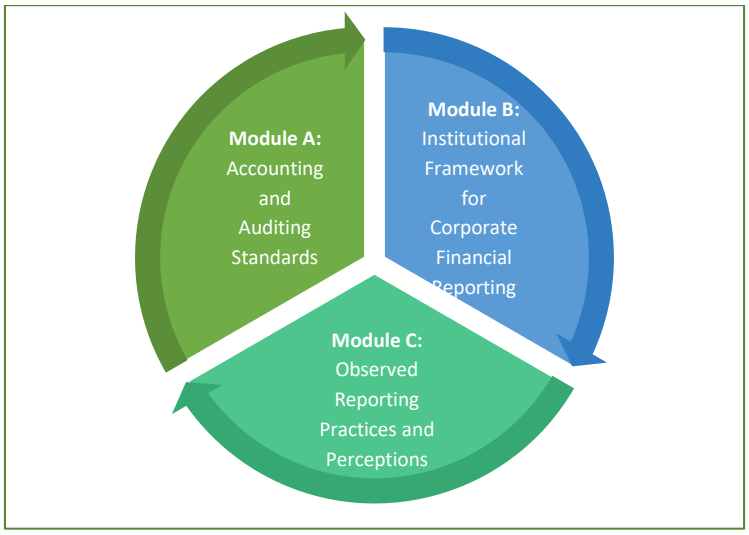
19. **High quality accounting, auditing, and disclosure in publicly available financial statements enables improved transparency and accountability, which are particularly important in creating a 'level playing field' for investors**. This helps to foster the environment necessary for both financial sector and capital market development by attracting institutional investors. It also helps to encourage enterprises to operate within the formal economy thereby making it easier to ensure they are paying the appropriate level of taxation and contributing to improved fiscal sustainability. Publicly available high

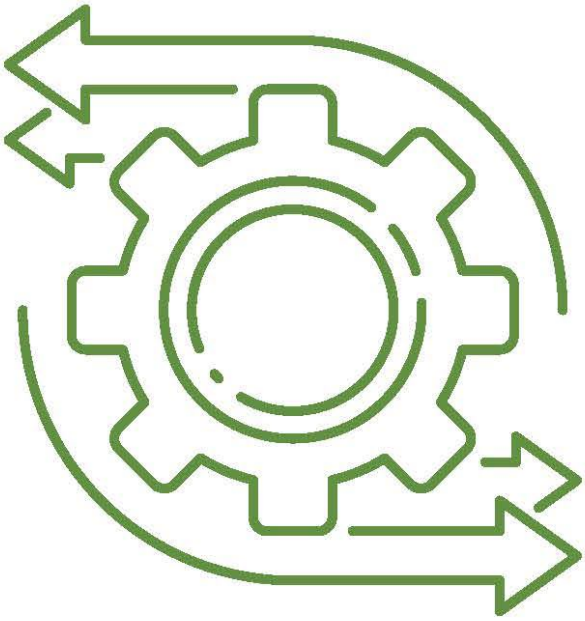
quality corporate financial reporting that is reliable, accurate, and comparable will promote increased confidence and trust by investors, lenders, and creditors.

20. **A strengthened accounting profession will help meet the demands of Cambodia's rapidly growing economy.** In 2007, when conducting the first ROSC A&A, it was observed that Cambodia had almost no institutional accounting system. Since then, Cambodia has made significant progress in modernizing the institutional framework for accounting and auditing by issuing new laws, declaring full adoption of international accounting and auditing standards, establishing a profession quality assurance system within MEF, and encouraging cooperation with international PAOs. Next steps investment is now needed to: (i) develop an appropriate local curriculum for accounting education; (ii) assess and monitor compliance to those standards in practices; and (iii) implement effective I&D procedures.

21. **This assessment was conducted at the request of the Government of Cambodia to provide institutional recommendations on the country's accounting reform agenda.** The data and other information used for the review were gathered: (i) using the revised ROSC A&A 2.0 diagnostic questionnaire completed by stakeholders; (ii) by reviewing accountancy profession-related documents; and (iii) through interviews with many stakeholders from the government, regulatory and accountancy bodies, auditing firms, individual practitioners, banks, MFIs, and academia. Practices were then benchmarked against international standards and good practices to provide the basis for the policy recommendations included in Section IV *Key Areas for Consideration*. The recommendations are intended to assist the promotion of: i) private sector led growth through increased regulatory and market efficiency; ii) development of the financial and capital markets; and iii) improved accountability and transparency, particularly in the non-listed PIEs sector. Increasing the degree of alignment with international standards and good practices for corporate financial reporting is a key driver of improvement of the overall standard of corporate governance.

Figure 1. ROSC A&A 2.0 Assessment Methodology





II ASSESSMENT

II ASSESSMENT

A. ACCOUNTING & AUDITING STANDARDS

22. **This section assesses the extent to which the national accounting and auditing standards follow international benchmarks–IFRS/the IFRS for SMEs for accounting and ISA/ISQC[21] for auditing**. The quality of national standards and how they are applied in practice impacts on the reliability and comparability of financial information for users, especially current or potential investors, lenders, and creditors. The national standard setting process is reviewed in Section II.B.7 *Setting Accounting and Auditing Standards*. The application of national standards is reviewed in Section II.C *Observed Financial Reporting Practices*.

Accounting Standards Gap

23. **Accounting standards provide the basis on which entities prepare their general-purpose financial statements**. They include both general and specific requirements that must be followed by preparers of financial statements when: (i) determining the scope and format of the financial statements; (ii) establishing and applying their entity-specific accounting policies for the different types of transactions they enter into and the circumstances and events that the reporting entity is subject to; and (iii) determining the extent of note disclosures presented in the financial statements.

24. **Accounting Law 2016 requires all enterprises to prepare financial statements.** Article 17 of the Law states "enterprises and not-for-profit organizations are obliged to prepare their financial statements within three months of the end of each financial year". These accounting records shall be prepared in the Khmer language and expressed in KHR. "Enterprises or not-for-profit entities which have regular transactions with foreign entities may be allowed to prepare their accounting records and financial statements in English and use a foreign currency to accompany the accounting records and financial statements in Khmer language and in Khmer Riel". Monetary sanctions on non-compliance to those requirements and accounting and auditing standards are provided in Sub-Decree No.79 on Provisional fines for the Violation of the Law on Accounting and Auditing, June 1, 2020 (Sub-Decree 79/2020). None-the-less, the compliance with quality, timing and submission of reports is observed to be low (refer Financial Statement Review section (paragraph 192).

25. **The accounting standard setter, the ACAR, adopted both IFRS and the IFRS for SMEs in 2009.** Even though those sets of standards were adopted without modification, they were renamed as Cambodian International Financial Reporting Standards (CIFRS) and Cambodian International Financial Reporting Standard for Small and Medium-sized Entities (CIFRS for SMEs) in Prakas No. 068 MEF/BK dated January 8, 2009 (Prakas 68/2009) and Announcement No. 097/09 MF-NAC dated August 28, 2009 (Announcement 97/2009). CIFRS were to be applied in financial statements for the period beginning on or after

[21] Replaced by International Standards on Quality Management 1 and 2 in December 2020, with effectiveness from December 15, 2022

January 1, 2012, while the CIFRS for SMEs were to be applied for the period beginning on or after January 1, 2010. Subsequently, the mandatory implementation of CIFRS for banks, other financial institutions, and insurance companies was delayed until 2016 and then deferred to 2019. MFIs were to adopt the CIFRS for SMEs for the first time in 2019.

26. **A separate accounting regime for micro enterprises does not exist.** Announcement 97/2009 mandates all public interest companies to adopt CIFRS. Non-publicly accountable enterprises are given the option to adopt either CIFRS or the CIFRS for SMEs. In accordance with Prakas on Submission Obligation of Audited Financial Statements, no. 563 (2020), micro enterprises that satisfy at least two out of the following three conditions are not required to have their financial statements audited: i) annual turnover of KHR 4,000,000,000 (approximately USD 1.000,000) or below; ii) total assets of KHR 3,000,000,000 (approximately USD 750,000) or below; iii) 100 or fewer employees.

27. **Automatic endorsement/adoption of new or amended IFRS/the IFRS for SMEs as CIFRS/CIFRS for SMEs is specified by Prakas, without a need for an equivalent translated Khmer version of the standards.** Prakas 68/2009 defines that CIFRS "completely comply with the international standards issued by the International Accounting Standards Board (IASB), including both descriptions and updates which may occur in all circumstances for each international standard". Although ACAR has obtained authorization from the IFRS Foundation for the Khmer translation of IFRS, the Khmer translation is neither published nor up to date. The Khmer translation of the now outdated 2009 version of the IFRS for SMEs is published on the IFRS Foundation website.

Auditing Standards Gap

28. **Auditing standards provide a basis for auditors to follow when they conduct their audits and provide their audit opinions.** The audit opinion confirms whether financial statements present a true and fair view of an entity's financial position and financial performance. This requires that auditors assess and express an opinion as to whether the financial statements fully comply with the requirements of accounting/financial reporting standards in all material respects.

29. **The appropriate implementation of auditing standards, that are aligned with ISA, is essential for the reliability of published financial statements in Cambodia**. The authorities have successfully adopted CISA, yet their implementation is an issue (as in many other jurisdictions) as this requires changes in auditor behavior and the use of rigorous risk-based audit methodologies that ensure a deep understanding of an entity's business and the potential risks it faces.

30. **Cambodia announced adoption of ISA and ISQC in 2010.** Prakas on Application of International Auditing and Assurance Standards of Cambodia, No. 370 issued by MEF on May 18, 2010 (Prakas 370/10), declared the country's full implementation of ISA and ISQC as issued by the International Auditing and Assurance Standards Board (IAASB), and the automatic effectiveness of any updates subsequently issued by the IAASB. In Cambodia, ISAs are renamed without modification as CISA. The Law on Accounting and Auditing (2016) reiterated this full adoption.

31. **An updated Code of Ethics is still pending approval by ACAR, it will require further updating to take into account the most recent IFAC IESBA requirements.** The Law on Accounting and Auditing (2016) gives ACAR responsibility for setting ethical requirements for professional accountants in Cambodia consistent with international standards. MEF subsequently issued a proclamation approving the requirements. In 2017, KICPAA completed and submitted a new Code of Ethics to NAC (now ACAR), updating the ethical requirements in alignment with the available version of the IFAC IESBA Handbook on International Code of Ethics for Professional Accountants. The proposed code is still pending ACAR approval and may now need further revision to take into account the updates of the IFAC 2018 IESBA Handbook[22].

32. **There are no Khmer versions of CISA or the Code of Ethics.** Audit firms in Cambodia currently use the English version of both CISA and the Code of Ethics as the "de facto" official version. The ACAR has not published any of those sets of standards in the Khmer language.

33. **The overall rating attributed to Cambodia under the performance indicator "Financial Reporting and Auditing Standards" is 4, as both sub-indicators are assessed with the highest possible score.**

Performance Indicators – Financial reporting and auditing standards

Sub-indicator A: Financial Reporting Standards

A.1. Financial reporting standards	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** A **majority** of adopted standards align or converge with IFRS. **3** **Most** adopted standards align or converge with IFRS. **4** **All** adopted standards align with IFRS.	**4.** IFRS and the IFRS for SMEs were adopted without modification and renamed "CIFRS",[23] and "CIFRS for SMEs".[24] First time adoption for banks, financial institutions, and insurers is for 2019 financial statements. Adoption of CIFRS for other entities starts 2012 and the CIFRS for SMEs in 2010. Regulations define CIFRS and the CIFRS for SMEs to be "completely comply with the international standards issued by the IASB, including both descriptions and updates which may occur in all circumstances for each international standard".

[22] The MEF has recently announced the full adoption of Code of Ethics for Professional Accountants issued by IFAC including current and future updates if any, in line with Prakas 779 (2020) on *Implementation of the Code of Ethics for Certified Public Accountants and Auditors in Cambodia*.
[23] Prakas 68/2009
[24] Announcement 97/2009

Sub-indicator B: Auditing Standards

B.1. Auditing standards	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** A **majority** of adopted standards align or converge with ISA and ISQC. **3** **Most** adopted standards align or converge with ISA and ISQC. **4** **All** adopted standards align with ISA and ISQC.	**4.** MEF declared the country's full adoption of ISA and ISQC and the automatic effectiveness of any subsequent IAASB updates. Prakas 370/2010 said: "The International Auditing and Assurance Standards of Cambodia fully implemented according to International Auditing and Assurance Standards issued by the Council of International Auditing and Assurance Standards of the International Federation of Accountants, including updates that may occur at all circumstances for each international standard shall be applied".

B. INSTITUTIONAL FRAMEWORK FOR CORPORATE FINANCIAL REPORTING

1. General Financial Reporting Requirements

34. **The Cambodia accounting framework requires full adoption of IFRS or the IFRS for SMEs.** Those sets of standards were adopted without modification and renamed CIFRS and the CIFRS for SMEs in Prakas 68/2009 and Announcement 97/2009.

35. **PIEs are required to adopt CIFRS, while other entities can choose between CIFRS and the CIFRS for SMEs.** Announcement 97/2009 requires PIEs to fully adopt CIFRS. The legislation defines PIEs as "entities with capital instruments traded in the market, or in the process of initial public offering (domestic or foreign stock market or over-the-counter domestic or regional market), or hold, as part of their business, assets with contractual obligation to others such as bank, credit union, insurance company, securities trading firm, securities brokering firm, mutual fund, and investment bank." Companies which are non-PIEs but subject to audit[25] must apply the CIFRS for SMEs and can choose to adopt CIFRS. Companies which are small enough to be exempted from audit are encouraged to adopt the CIFRS for SMEs.

36. **Banks, MDIs, deposit-taking MFIs and insurance companies are required to fully adopt CIFRS and MFIs to fully adopt the CIFRS for SMEs since 2019.** The full adoption of those financial sector entities was postponed a couple of times before becoming effective as

[25] Prakas 563/2020

announced by the ACAR and NBC. Financial year 2019 was the first year of adoption of CIFRS/CIFRS for SMEs by those entities.

37. **Regulators of listed companies and of the financial sector issued separate guidance for audit and disclosure of financial statements of those entities.** SERC, NBC, and ISD require listed companies, banks and financial institutions, and insurance companies to have their financial statements audited and disclosed. While listed companies and banks and financial institutions are required to disclose a full set of financial statements with audit reports, insurance companies are to disclose only the balance sheet and income statements. Detailed financial reporting, audit, and disclosure of those sectors are discussed in the following Sections B.2, B.3, and B.4 of this report.

38. **Non-listed large entities are not required to publish annual financial statements or submit them to Government authorities.** There was previously no specific legal requirement for large entities not yet listed, including PIEs, to disclose financial information to the public[26]. With fewer than 10 entities listed on the stock exchange, the country's economy relies heavily on those large but not yet transparent enterprises. Nor is there a system for unlisted large entities to routinely submit financial statements to Government authorities. Their financial statements are provided to stakeholders though private channels upon request.

39. **Micro enterprises are exempted from audit but still required to adopt the CIFRS for SMEs.** Prakas on Obligation to Submit Financial Statements for Independent Audit, No. 563, of July 10, 2020 (Prakas 563/2020) requires all enterprises to have their annual financial statements audited by a licensed audit firm. Exemption is given to micro enterprises if they meet at least two out of these three conditions: i) annual turnover of KHR 4,000,000,000 (approximately USD 1,000,000) or below; ii) total assets of KHR 3,000,000,000 (approximately USD 750,000) or below; iii) 100 employees or below. All micro enterprises must still apply either CIFRS or the CIFRS for SMEs. The MEF does not issue any simplified accounting framework although one is under consideration.

40. **The legal framework for financial reporting is summarized in the following table**.

Summary of financial reporting requirements for the corporate sector

Entities	Accounting Standard	Audit Requirement	Public Disclosure	Legal document for classification	Legal document for accounting standards	Legal document for audit requirement	Legal document for disclosure
Listed companies	IFRS	Annual financial statements	Full set of financial statements and audit report, quarterly financial report	Law on Issuance and Trading of Non-Government Securities 2007	Prakas on Adoption of IFRS 068 MEF.PrK, 2009	Prakas on Corporate Governance of Listed Companies 11/SERC, 2018	Prakas on Corporate Disclosure 007/18 K.M.K/BB.K., 2018

[26] Article 5, Prakas no. 563 (2020) on *Submission of Annual Financial Statements for Independent Audit* requires financial statements of unlisted large entities to be filed with ACAR for financial year ended 31 December 2020 while corporate entities which are not subject to statutory audit are required to submit their respective annual financial statements to ACAR for financial year ended 2021 onward.

Banks and MDIs	IFRS	Annual financial statements	Full set of financial statements and audit report	Law on Banks and Financial Institutions 1999	ACAR announcement on January 3, 2019, NBC announcement on February 15, 2019	Prakas on Annual Audit of Financial Statements of Banks and Financial Institutions B7-04-204, 2004	Prakas on Annual Audit of Financial Statements of Banks and Financial Institutions B7-04-204, 2004
MFIs	The IFRS for SMEs	Annual financial statements	Full set of financial statements and audit report	Law on Banks and Financial Institutions 1999	ACAR announcement on January 3, 2019, NBC announcement on February 15, 2019	Prakas on Annual Audit of Financial Statements of Banks and Financial Institutions B7-04-204, 2004	Prakas on Annual Audit of Financial Statements of Banks and Financial Institutions B7-04-204, 2004
Insurance companies	IFRS	Annual financial statements	Balance sheet and income statement	Law on Insurance 2000	ACAR announcement on January 3, 2019	Prakas on Accounting Guidelines for General Insurance Business 549 MEF.PrK, 2008	Prakas on Annual Financial Statements for General Insurance Business 619/ 2010
Non-listed large enterprises	IFRS/ IFRS for SMEs	Annual financial statements	No legal requirement for disclosure of financial statements	Prakas no. 563 (2020)	Prakas on Adoption of IFRS 068 MEF.PrK, 2009	Prakas no. 563 (2020)	None
Medium	IFRS/ IFRS for SMEs	Annual financial statements	No legal requirement for disclosure of financial statements	Prakas no. 563 (2020)	Prakas no. 563 (2020)	Prakas no. 563 (2020)	None
(small) enterprises	(Simplified accountin g format)	Exempted from audit	No legal requirement for disclosure of financial statements		Prakas No. 1820MEF, PrK, 2015		None

2. Listed Companies

Overview of the securities and exchange market

41. **CSX is the smallest of the capital markets among regional peers.** CSX was incorporated in February 2010 and began operations in July 2011 with two shareholders – The Royal Government of Cambodia (55%) and Korea Exchange (45%). As of April 2021, CSX has seven listed companies (three majority state-owned, two private, one foreign invested company and one commercial bank) and six listed bond issuers (three commercial banks, two MDIs and one retailer). There are 11 securities firms: six underwriters, one dealer, and

four brokers. As of April 2021, the stock market capitalization was approximately USD 2.3 billion. Bond market capitalization was USD 71 million.

42. **Since its opening, CSX has faced challenges in boosting liquidity and attracting new companies to list**. The establishment of institutional investors and other intermediaries in the Cambodian securities market has been slow. Institutional investors in Cambodia are limited to some insurance companies, pension funds, and banks. The small size of the market and low level of liquidity are also important factors deterring investors. To facilitate market transactions, capacity to undertake asset valuation for securities market transactions that meet international standards are to be developed. Modernized IT systems to improve information disclosures and market monitoring and surveillance are also needed.

43. **SERC has imposed several measures to attract more listings of stock and bonds**. In September 2015, the authorities announced the creation of a new trading platform aimed at increasing participation of SMEs on CSX. SMEs have the option of listing on a 'Growth Board' – an addition to the existing 'Main Board'. A comparison of the requirements for the Growth Board and Main Board are outlined below.

	Main Board	Growth Board (for SMEs)
Shareholders' equity	>= KHR 30 billion (appx. USD 7.5 million)	>= KHR 2 billion (appx. USD 500.000)
Net profit	>= KHR 2 billion (appx. USD 500.000) for the latest year and >= KHR 3 billion (USD 750.000) for the latest 2 years	Positive net income for latest year; or positive operating cash flow and gross profit margin >= 10%
Minority shareholders	>= 200 shareholders; and >= 7% of the total voting shares	>= 100 shareholders; and >= 10% of the total voting shares
Audited financial reports	2 years	1 year
Listing Eligibility Examination Fee	KHR 4 million (appx USD 1.000)	KHR 2 million (appx. USD 500)
Listing Fee	KHR 10 million (appx. USD 2.500) for firms with market capitalization of less than KHR 12 trillion (appx. USD 300 million)	KHR 4 million (appx. USD 1.000) or 0.025% of market capitalization (whichever is larger)
Annual Fee	KHR 3 million (appx. USD 750) for firms with a market capitalization of less than KHR 12 trillion (appx. USD 300 million)	KHR 4 million (appx. USD 1.000) or 0.015% of market capitalization (whichever is larger)

44. **The Cambodian Financial Sector Development Strategy 2016-2025[27] aims to continue to boost the growth of the capital market.** Elements that are addressed in this plan include: (i) continuing to streamline regulations for SME listing, (ii) encouraging the listing of SOEs, (iii) promoting the creation of exchange traded funds, (iv) reviewing the effectiveness of tax and non-tax incentives for listed companies, and (v) promoting the listing of financial institutions. Awareness raising activities with companies and other stakeholders on the benefits of capital market access is also a key component. To enhance the relationship with regional and foreign investors, CSX has signed memoranda of understanding with other stock exchanges in the Greater Mekong Sub-region: Stock Exchange of Thailand, Hanoi Stock Exchange, and the Lao Securities Exchange.

Securities market regulation

45. **The SERC is the sole regulator of the securities sector of Cambodia**. The SERC was established under the Law on the Issuance and Trading of Non-Government Securities – No. NS/RKM/ 1007/028 of 2007. Its duties, as mandated by the Law, include market supervision and policy enforcement, licensing, complaints handling, and other activities to develop the market. SERC also grants accreditation to securities-related cash settlement agents, securities registrars, securities transfer agents, paying agents, professional accounting firms, and independent auditors and valuation companies providing services in the securities sector.

46. **The Law sets out the structure of the SERC.** The Board of the SERC comprises the Minister of Economy and Finance as Chair and eight other members: senior government officials from the MEF, the NBC, the Ministry of Commerce, and the Ministry of Justice; a representative from the Cabinet of the Council of Ministers; the Director-General of SERC; and two capital market experts. Board members are appointed by sub-decree at the request of the Chair for a five-year renewable term. The Board appoint a Director-General who is responsible for the daily running and administrative activities and operations of the SERC, including the power to issue or terminate licenses.

47. **SERC monitors the submission of financial reports of bond issuers and listed companies.** The reports are published by companies on the CSX quarterly and annually. The quarterly reports are reviewed by audit firms, while the annual financial statements are audited. Besides supervising the timeliness and adequacy of the reports, SERC also conducts technical reviews on capital adequacy, profitability, and insolvency of the entities. Non-financial information disclosed in the audited financial statements which need the regulator's attention such as operation, investment, litigation, related parties, and corporate governance are also summarized in the report to the SERC Director-General. The SERC review does not focus on CIFRS and CISA compliance.

48. **SERC's operation is funded by various sources of income.** In addition to funding from the national budget, the Commission collects revenue from license fees and penalties, can

[27] https://www.nbc.org.kh/download_files/publication/blueprints_eng/Financial-Sector-Development-Strategy-2016-2025-English.pdf

accept donations from individuals/companies, and can receive donor support, for example from international financial institutions.

49. **SERC prepares an annual report on its activities, published on its website.** This is not mandated by law but is prepared voluntarily by the SERC to provide necessary information to the Government and stakeholders.

50. **Supervision of the securities sector will pass to a new Cambodia Securities Regulator within the NBFA**. The Law on the Establishment and Functioning of a Non-Banking Financial Authority (2021) establishes NBFA as a fully independent authority for the non-banking sector. The Cambodia Securities Regulator within NBFA will take on supervisory functions for the securities sector as the successor of SERC.

Financial reporting requirements for listed companies

51. **Listed companies are required to apply CIFRS.** The standards, which are IFRS renamed without modification to CIFRS, are to be applied for both legal entity financial statements and consolidated financial statements.

52. **Annual and quarterly financial statements of listed companies are to be published according to Prakas on Corporate Disclosure No. 7, 2018 (Prakas 7/2018).** Audited annual financial statements are to be published on the CSX website within 90 days after financial year end.[28] Interim quarterly financial statements are to be reviewed by the auditor and to be published within 45 days. Although not specified in the Prakas, SERC requires both legal entity reports and consolidated reports where applicable.

53. **Listed companies are required to include a management report in their annual report.** Article 8 of Prakas 7/2018 requires listed companies' annual reports to include management discussion and analysis, in addition to the audit report, audited annual financial statements, and other statements. The management report shall include analysis and discussion of financial statements and other information with an emphasis on material changes occurring within the financial year. The changes may include significant fluctuation of sales and revenue, impact of foreign exchange, interest rates and commodity prices, and impact of inflation and macro policies. Such reports shall also include information on the achievement of targets and performance indicators by the company. International good practices on corporate disclosure suggest the management report should also discuss significant social and environmental issues, but regulations and actual reports in Cambodia do not address this area.

54. **Regulations on financial reporting of listed companies are consistent and in line with CIFRS.** SERC issued Prakas 7/2018 and Prakas on Corporate Governance of Listed Companies, Nr. 2, 2009 (Prakas 2/2009), which provide for the frequency of publishing financial reports and additional management information to be disclosed, without interfering with the financial reporting standards. As a consequence, all listed companies

[28] Good international practice suggests that issuers (i.e. listed entities) should make public the annual financial statements at the latest **four months** after the end of financial year and should ensure that these remain publicly available for at least five years

currently fully adopt CIFRS as issued by ACAR. As Prakas 68/2009 mandates that it is for "large and medium-sized companies" only, it is unclear whether a small enterprise that becomes listed should adopt CIFRS or the CIFRS for SMEs; according to good practice all listed enterprises, regardless of size, should be subject to CIFRS[29].

Statutory audit and other forms of independent assurance

55. **Listed companies are required by Prakas to have annual financial statements audited.** Prakas on Corporate Governance of Listed Companies, 2018 (Prakas 11/2018) requires these companies to publish audited annual financial statements on their websites to be accessible to shareholders. Prakas 7/2018 requires listed companies to submit annual report to SERC within 90 days after financial year end. The annual report must contain annual financial statements audited by auditors accredited by SERC.

56. **ACAR has set CISA as the auditing standards for listed companies.** ACAR requires CISA to be applied fully for all types of entities. Section II.A *Accounting and Auditing Standards* provides more information on auditing standards in Cambodia.

57. **There is mandatory rotation of audit firms of listed companies every five years.** Audit firm rotation is required by Prakas 2/2009, with a mandatory three-year cooling-off period.. This period of firm rotation is too short. The learning curve of the engagement is forfeited, which increases the risk of undetected errors and raises costs. Good practices should have rotation of both audit engagement partners and firms[30], with a longer period applied for the firms.

58. **SERC approves audit firms and individual auditors of listed companies and other entities operating in the securities sector.** Prakas on Accreditation of Firms Providing Audit Services in the Securities Sectors, No. 05, SERC, 2010 (Prakas 5/2010) requires individual auditors to satisfy the following minimum conditions: i) being an active member of KICPAA; ii) having a valid audit license issued by ACAR; iii) having at least five years of experience in external audit; iv) having never violated the code of ethics; and v) having never been sanctioned definitively for any misdemeanor not more than 10 years preceding the date of application. For audit firms to be accredited, the firms must have at least two individual auditors accredited by SERC, and satisfy requirements on professional indemnity, reputation, experience, quality control system, and audited financial statements. Both individuals and firms have to submit applications to SERC for review and approval of accreditation. As at April 2020, nine firms and 38 individual auditors were accredited. The list of firms and individuals eligible to provide audit service to the securities sector is published on the SERC website.

59. **SERC accreditations of audit firms and individual auditors are valid for three years.** 45 days before the accreditation expires, firms and auditors wishing to continue providing audit services to the securities sector should apply to SERC to renew the accreditation.

[29] In practice, all listed companies are required to apply CIFRS.
[30] The Law on Accounting and Auditing (2016) defines an auditor as a 'natural person and legal entity who provide the auditing service and is member of the professional body of accounting and audit'.

60. **Audit firms and individual auditors are not allowed to provide audit services in case of conflict of interest.** Direct or indirect interests between the auditor and audited entity as defined by SERC include spouse, family member, or a relative by marriage up to the third level, or any other relationship determined by the Director-General of SERC. The conflict-of-interest restriction is also applied for non-assurance services. The audit firm and individual auditors are not allowed to provide the following services to the audited entity: i) bookkeeping; ii) financial management information system design and implementation; iii) appraisal or valuation; iv) actuarial; v) internal audit; vi) management or human resource; vii) investment adviser, investment banking services; viii) legal services; ix) tax consultation; x) any other service determined by the Director-General of SERC as a conflict of interest. In case the audit firms/auditors have already provided the mentioned non-audit services, the firms/auditors are not allowed to provide audit service to the entity within three years after the service is completed. The potential conflict of interest of a group auditor providing non-audit advisory services to its subsidiaries is not explicitly excluded in Prakas.

61. **The company's board of directors is responsible for auditor appointment.** Prakases on Corporate Governance for Listed Companies provide that the board of directors shall nominate the auditor at the request of the audit committee. The audit fee should be approved in advance by the audit committee and disclosed in the annual report. Although the Law on Commercial Enterprises (2005) provides that the shareholders of a company shall appoint an auditor by ordinary resolution at the first annual general meeting of shareholders and at each succeeding annual general meeting, the listed companies follow the guidance of the Prakas in practice.

62. **Listed companies must report to SERC and disclose in their annual report any change of auditor.** According to Prakas 2/2009 any resignation, dismissal, or cessation of auditing service of the professional accounting firm shall be disclosed in the annual report together with specific reasons; also, SERC shall be informed in writing immediately within the period of not later than five working days after such event. The annual report shall include a discussion of any disagreement with the former professional accounting firm on any matter of accounting principles or practices, financial statement disclosure, and auditing scope or procedure without any solutions to satisfy the former professional accounting firm. Termination of a contract with a firm providing audit service in the securities sector before the mandate of the engagement letter should also be communicated to the securities market and copied to the SERC up to one hour before trading opens, but if termination happens within one hour or during trading time then it should not be notified until after trading closes for the day.

63. **Auditors' presence at annual meetings of shareholders is possible if required and requested.** The Law on Commercial Enterprises (2005) requires that an auditor of a company shall examine the necessity to report to the shareholders on the financial statements. The auditor is entitled to receive notice of every meeting of shareholders and attend, at the company's expense, to be heard on matters relating to his duties as auditor. The Law also requires that if a director or shareholder of a company, whether or not the

shareholder is entitled to vote at the meeting, gives written notice not less than ten days before a general meeting of shareholders to the auditor or a former auditor of the company, the auditor or former auditor shall attend the meeting at the expense of the company and answer questions relating to their duties as auditor. Failure to comply without reasonable cause is an offence that is subject, on conviction, to a fine from KHR 1 million to 10 million; imprisonment for a term not exceeding six months; or both.

Audit committees

64. Listed companies are required to establish an audit committee under the board of directors. According to Prakas on Corporate Governance for Listed Public Enterprises, No. 013, SERC, December 15, 2010 (Prakas 13/2010), the audit committee shall comprise at least three members and be chaired by an independent director. At least one member shall have financial expertise and appropriate experience, other members shall be literate in finance and accounting. Roles and duties of the committee shall be determined by the board, including: i) review financial statement; ii) review internal control; iii) review internal auditing; iv) review external auditing; and v) report the committee's activities to the board. The board of directors' reports to shareholders at the annual general meeting.

Filing/publication of financial statements

65. **CIFRS audited annual financial statements are published with annual reports on the CSX website.** The financial statements are also sent to SERC and disclosed on company websites. Regulations do not specify clearly for how many years the disclosed financial statements should remain on the CSX or company's website. Annual financial statements prepared in accordance with CIFRS are fully disclosed, including audit report, management report, and notes and disclosures. The statements are published within 90 days after financial year end. Quarterly financial reports are published within 45 days after quarter end, including the review report of the auditor. A company shall prepare and maintain adequate accounting records for a period of 10 years after the end of the financial year to which the records relate.

66. **Listed companies are required to disclose material facts to CSX and send a copy to the SERC.** Outside trading time material facts should be reported within one hour of the listed company becoming aware of them. Notification of material facts that emerge during trading time or within the preceding hour should wait until trading ends. Material facts include: i) a change of auditor; ii) any change to the board of directors or senior management with decision making power, such as chief executive officer or chief financial officer; iii) significant decrease or increase of revenue, operating profit/loss, or net profit/loss; iv) significant impairment of shareholders' equity; or v) occurrence of force majeure significantly affecting total assets.

67. **The information disclosures are to be prepared in written form and published on an accessible website.** Listed companies should send information to CSX and SERC directly or through email, CSX/SERC electronic system, or other electronic system. When it is necessary and urgent, disclosure of information can be made verbally by phone or other electronic system and then immediately followed in written form. A listed entity shall

share all corporate information disclosed to CSX immediately through its website. The website should include an area for "Investor Relations" with the phone number and email address of the company's nominated disclosure officer and should enable investors to forward queries to the listed entity.

Monitoring and Enforcement – Financial Reporting

68. **The Securities Issuance Supervision Department under SERC is responsible for reviewing financial statements of listed companies**. The review should focus on report adequacy, auditor report, and the content of the financial statements. SERC also reviews the completeness and timeliness of financial statement submission. Any delays may trigger follow-up action by SERC, especially in cases where going concern or other issues that may require an onsite supervision visit are the cause of the delay. Auditors' management letters are not submitted to SERC; however, these can be required if an investigation is undertaken. The review does not address compliance with financial reporting standards and auditing standards[31].

69. **AQMC performs oversight on auditors of listed companies**. SERC is also a member of AQMC. One of the roles of this committee is to conduct quality review of all audit firms in Cambodia. Accredited firms providing audit service and auditors are obliged to cooperate with SERC's officials in inspecting the firms' audit quality control system, focusing on reviewing compliance with CISA.

70. **SERC is empowered to undertake formal investigations and impose administrative sanctions for non-compliance with financial reporting requirements by listed companies**. Administrative sanctions depend on the severity of the case and, based on the Law on Issuance and Trading of Non-government Securities (2007) and Prakas 7/2018, can vary including written warnings, administrative fines, restrictions, suspension or revocation of business licenses, or cancellation of registration. Besides administrative sanctions, SERC may also impose written orders, such as the reissue of financial statements. A sanction itself can be imposed not only on the listed company, but also on other parties that may have caused the violation, for example auditors or directors. Where criminal investigations are required, SERC refers the case to the Public Prosecutor. According to SERC, there were no major cases of breach of financial reporting requirements in the last five years. Sanctions on non-compliance to accounting and auditing standards are provided in Sub-Decree 79/2020.

71. **SERC and CSX undertake additional supervisory measures in cases where an audit opinion other than unqualified (clean) is issued by the auditors**. SERC require the company to address the auditor's qualification. If compliance with financial reporting standards is an issue, SERC may ask the issuer to restate and reissue financial statements. If an indication of violation to the regulations is highlighted, it will trigger an examination process. Where a disclaimer of opinion (for two consecutive periods) or an adverse opinion

[31] ACAR has formed a compliance department which will in future be responsible for the compliance review.

(one time) is issued, the SERC may suspend trading in a company's securities. No disclaimers or adverse opinions appear to have been issued so far.

72. **There is no regular interaction between auditors and the securities regulator. There are no legal or regulatory requirements for SERC to hold regular auditor meetings**. Prakas 5/2010, however, requires the auditors to communicate to SERC any information of material significance, including (i) material fraud or error of an audited entity that impact a decision or mislead securities investors or related stakeholders, (ii) losses or potential losses that account for at least 10 percent of the total assets of the audited entity, (iii) assets of the audited entity are not adequate to cover the total claims of creditors, (iv) inadequate internal control mechanism of audited entities which may lead to financial reporting problems. Audit firms are also required by the Prakas to inform SERC within seven working days of the firm's merger and acquisition, suspension of license, potential bankruptcy, or any other change in incorporation. Resignation or dismissal from providing audit services to listed companies are also required to be informed within seven working days to SERC. The SERC Director-General has the power to require additional information for supervision purposes.

Corporate Governance

73. **A Code of Corporate Governance is being developed.** Corporate governance of listed companies is currently regulated in the Law on Commercial Enterprises (2005) and Prakases on Corporate Governance for Listed Companies. The legislation does not require or encourage any departures from standard financial reporting or auditing requirements. Cambodia is developing a Code of Corporate Governance with technical assistance from the International Finance Corporation (IFC).

74. **Current regulation does not require listed companies to prepare and disclose corporate governance statements.** International good practices recommend that PIEs, such as listed companies, must prepare an annual self-assessment of their compliance with the code. This corporate governance statement should be published by the entity, normally as part of the annual report. Key information of the statement includes: results of the self-assessment against the implementation regulation; share ownership details; frequency of board meetings; number of internal fraud cases and how the entity has handled them; number of legal claims and the entity's settlement efforts; transactions with a conflict of interest; buy back of shares and/or bonds; provision of funds for social activities and political activities with detail of the nominal value and recipients; and a description of the diversity policy applied in relation to the entity's Board with regard to aspects such as, for instance, age, gender, educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented, and the results in the reporting period.

75. **The overall rating attributed to Cambodia under the performance indicator "Financial Reporting and Auditing of Listed Companies" is 2.9 out of 4**, which equals the simple mean of the rating criteria comprising sub-indicators A and B below (2.9=(3.3+2.5)/2)).

Performance Indicators – Financial reporting and Auditing of Listed Companies

Sub-indicator A: Financial Reporting and Auditing Requirements for Listed Companies.

The attributed rating is 3.3, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e. 3.3 = (3+3+4)/3).

A.1. Financial reporting requirements for listed companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Listed companies are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards. **3** In addition to requirements under "2": Listed companies are required to prepare a management report (or management discussion and analysis – MD&A). Listed companies are required to apply IFRS for consolidated annual financial statements. **4** In addition to requirements under "3": Listed companies are required to prepare interim consolidated financial statements and to publish a statement on corporate governance.	**3.** Listed companies are required to prepare CIFRS compliant[32] annual financial statements for both the legal and the consolidated entity.[33] Listed companies are required to include a management report in their annual report.[34] Annual and interim quarterly financial statements must be published. Although it is not specified, SERC requires both legal entity and consolidated reports where applicable. Current regulation does not require listed companies to publish statement on corporate governance.

A.2. Audit requirements for listed companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** The legal entity and consolidated financial statements of listed companies are subject to annual statutory audits. Shareholders (at the annual general meeting) or board of directors (i.e. a governance body independent of management) are legally responsible for the appointment and dismissal of auditors of listed companies. **3** In addition to requirements under "2":	**3.** The annual financial report is required to be audited,[35] and must be accompanied by a separate management report, however it is not clear that the auditor is required to attest to consistency. Listed companies are required to form an audit committee, comprising at least 3 members and chaired by an independent member (i.e. not all members are required to be independent directors).

[32] IFRS as adopted in Cambodia, which are IFRS without other modification.
[33] Prakas 7/2018
[34] Article 8 of Prakas 7/2018 requires listed companies' annual reports to include management discussion and analysis, besides audit report, audited annual financial statements and other statements.
[35] Prakas 2/2009

	The auditor's report is required to attest whether the management report (MD&A) and other financial information have been read for consistency with financial statements. Listed companies are required to form an audit committee. At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.	At least one member must have recent relevant financial or auditing experience.[36] Interim financial statements are required to be reviewed by auditors. The relevant Prakas states that the board of directors is responsible for auditor appointment.[37] Although the Law provides that the shareholders of a company shall appoint an auditor,[38] the listed companies follow the guidance of the Prakas in practice.
4	In addition to requirements under "3": Interim consolidated financial statements of listed companies are required to be reviewed by auditors. The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience. Auditors of listed companies are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.	

A.3. Timeliness and public disclosure of financial reports for listed companies		
RATING CRITERIA		**CAMBODIA RATING**
1	Criteria for "2" rating not met.	**4.** All listed companies must publish their annual financial statements including audit report and management commentary on the CSX website and on their own website, within 90 days of financial year end.[39] The interim reports, including the audit review, must be published within 45 days of quarter end.
2	Listed companies are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form. Legal requirements are such that access to financial statements is limited or costly. The deadline for publication of annual reports of listed companies is no later than 9 months after reporting date.	
3	In addition to requirements under "2":	

[36] Prakas 2/2009
[37] Prakas 2/2009
[38] Law on Commercial Enterprises, 2005
[39] Prakas 2/2009

	The audit opinion is also made publicly available. Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability. The deadline for publication of annual reports of listed companies is no later than 6 months after reporting date.
4	Listed companies are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available. Listed companies are also required to publicly disclose the interim financial statements, with accompanying management discussion and analysis. Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost. The deadline for publication of annual reports of listed companies is no later than 4 months after reporting date.

Sub-indicator B: Monitoring and Enforcement of the Financial Reporting Requirements of Listed Companies.

The attributed rating is 2.5, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e. 2.5 = (2+3+2+3)/4).

B.1. Review of the listed company's annual financial statements	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Review of the annual financial statements by the securities market regulator has *significant limitations* **3** Review of the annual financial statements by the securities market regulator has *minor limitations.* **4** Review of the annual financial statements by the securities market regulator is *fully adequate*.	**2**. The Securities Issuance Supervision Department under SERC is responsible for reviewing financial statements of listed companies. The review focuses on report adequacy, auditor report and the content of the financial statements. The review, however, does not follow a comprehensive risk-based methodology, allowing to address compliance with financial reporting standards and auditing standards.

B.2. Communication with external auditors of listed companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Communication between the securities market regulator and external auditors of listed companies has *significant limitations.* **3** Communication between the securities market regulator and external auditors of listed companies has *minor limitations*. **4** Communication between the securities market regulator and external auditors of listed companies is *fully adequate*.	**3.** The AQMC performs oversight on auditors of listed companies. Auditors' management letters are not submitted to SERC; however, these can be required if an investigation is undertaken. There is no regular interaction between auditors and the securities regulator. Auditors are required to communicate to SERC any information of material significance.[40]

B.3. Reporting on the review of financial reporting of listed companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Reporting by the securities market regulator on review of the financial statements of listed companies has *significant limitations*. **3** Reporting by the securities market regulator on review of the financial statements of listed companies has *minor limitations*. **4** Reporting by the securities market regulator on review of the financial statements of listed companies is *fully adequate*.	**2**. The SERC prepares and publishes on its website an annual report on its activities. Such an annual report is not mandated by law but is prepared voluntary by the Commission to provide necessary information to the Government and stakeholders. The report does not focus on compliance with CIFRS by listed companies.

B.4. Supervisory measures and sanctions for listed companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Supervisory measures and sanctions that can be imposed by the securities market regulator have *significant limitations*. **3** Supervisory measures and sanctions that can be imposed by the securities market regulator have *minor limitations*. **4** Supervisory measures and sanctions that can be imposed by the securities market regulator are *fully adequate.*	**3.** The SERC is empowered to undertake formal investigations and impose administrative sanctions for non-compliance with financial reporting requirements by listed companies. Sanctions depend on the severity of the case and can vary from written warnings, to administrative fines, restriction, suspension or revocation of business

40 Prakas 5/2010.

licenses, or cancellation of registration.[41] Besides sanctions, SERC could also impose written orders, such as the reissue of financial statements. Sub-Decree 79/2020 provides for monetary sanctions on violation of accounting standards or auditing standards, but not investigative and follow up procedures.

3. Banking Sector

Overview of the Banking Sector

76. **Cambodia's banking system continues growing both in scope and scale**. Its total assets were KHR 209.4 trillion (USD 51.4 billion) as at end of 2019. This represented 155 percent of GDP. At the end of 2019, Cambodia's banking system consisted of 47 commercial banks (17 local banks, 17 subsidiaries, and 13 foreign branch banks), 15 specialized banks, seven MDIs, 76 MFIs, 245 rural credit institutions, 15 financial leasing companies, four third party processors, 21 payment service institutions, one credit bureau company, six representative offices, and 2,913 money changers.[42] Only one bank (ALCEDA) has stock listed on CSX, while six of them have bonds listed.

77. **The banking system's credit to economic sectors has evolved, with an increasing share of lending to construction, real estate, and retail sectors.** The share of banks' credit to manufacturing has declined by more than half as a percentage of total banks' credit since 2012. Credit to the wholesale sector has also declined, but it is offset by an increasing share to the retail sector. Credit to construction, real-estate activities, and mortgages has expanded rapidly since 2012. This movement is in line with the changing landscape of the banking system and the economy.

78. **Due to rapid growth in MDI's credit, their share of credit and overall assets have increased.** The share of MDI assets and credit gradually increased 14 percent and 18 percent respectively between 2012 and 2019. Some MDIs have become as large as commercial banks. Credit from MDIs and MFIs has been dominated by credit to households.

Banking regulator

79. **NBC is the sole regulator of the banking and financial sector in Cambodia**. NBC was founded in 1954 and re-established on October 10, 1979. Its duties are mandated by the Law on Organization and Conduct of National Bank of Cambodia - NS/RKM/0196/27 dated January 26, 1996. NBC is the sole issuer of the national currency – Khmer riel – and determiner of the country's monetary policies. As the supervisory authority, NBC has the

[41] Law on Issuance and Trading of Non-government Securities 2007 and Prakas 7/2018
[42] NBC Annual Supervisory Report 2019

authority to license, delicense, regulate, and supervise banks and financial institutions. NBC also conducts regular economic and monetary analysis, publishes various publications, oversees the nation's payment systems, establishes balance of payments, and participates in the management of external debt claims. The Cambodian economy and banking sector are significantly dollarized, although in 2020 NBC issued several policies in an effort to wean the economy off the US dollar and reinstate the riel as the sole currency.

80. **The structure of the NBC is provided by the Law on Organization and Conduct of National Bank of Cambodia (1996).** The Board of Directors consists of seven representatives from government, academia, the private sector, and NBC staff. The Governor is the Chair of the Board, serves as Chief Executive Officer, reporting to the Board, and is responsible for implementing policy and the day-to-day conduct of operations. The Governor is appointed, replaced, and dismissed by Royal Decree, based on a Government recommendation. Five divisions are responsible for executing the day to day functions of the NBC's central banking operations: Secretariat General, Directorate General of Central Banking, Directorate General of Banking Supervision, Cash General, and Inspection General. 21 Departments, each headed by a Director, implement NBC's policies on a day to day basis. Oversight of corporate financial reporting of banks and financial institutions is conducted by the Directorate General of Banking Supervision.

81. **NBC prepares an annual report on its activities that is published on its website.** The report is in both Khmer and English. The report discusses the outlook, targets, monetary policies, recent developments, and achievements as well as a brief summary of recent supervision activities. Main reported findings focus on capital adequacy and prudential reporting, internal controls, governance, and lending. The report highlights the role NBC plays in promoting application of quality financial reporting including updates to reporting templates. The quality of financial reporting and auditing of the banking and financial sector is considered in Section 7 of the report.

Financial Reporting Requirements for Commercial Banks

82. **Banks and MDIs are required to comply with CIFRS for general purpose financial statements since 2019.** ACAR and NBC announcements (of January 3, 2019 and February 15, 2019 respectively) required commercial banks, specialized banks, and MDIs to fully adopt CIFRS for general purpose financial statements for financial year 2019 and onward. Similarly, MFIs (non-deposit taking), leasing companies, and rural credit institutions were required to start the adoption of the CIFRS for SMEs since financial year 2019. The requirement is applied to both legal entity and consolidated statements. CIFRS and the CIFRS for SMEs are automatically in line with the most recent versions of IFRS and the IFRS for SMEs, respectively.

83. **Banks and financial institutions are required to submit annual audited financial statements to NBC and make them available to the public.** Financial statements are to be submitted to NBC no later than 31 March of the following year as provided in Prakas on Annual Audit of Financial Statements of Banks and Financial Institutions, 2004 (Prakas B7-04-204/2004). The Prakas also requires institutions to publish their financial statements

by 30 June of the following year. This three-month gap between access to the financial statements by the regulator and by the public is longer than comparable good practice and reduces the timeliness of useful information to the public.

84. **Banks submit interim financial reports and prudential reports to NBC periodically.** NBC requires banks to submit balance sheet and income statements on a monthly basis. Single entity reports are submitted by the 10th and consolidated reports are submitted by the 20th of the following month. These interim financial reports are not required to be audited and published. In addition, banks submit to NBC about 42 other prudential reports required by Prakas containing information on liquidity, net worth, solvency, and provision for bad and doubtful debts on a daily, monthly, quarterly, or yearly basis. These prudential reports are not required to be published, but the difference between measurement of loans impairment per CIFRS and per prudential guidelines should be disclosed in published reports. The management letters issued by auditors are also submitted to the NBC.

85. **Banks' management discussions are published.** Prakas B7-04-204/2004 requires banks to make public information on overall strategy, compliance to laws and regulations, governance, key performance indicators, risk management policies, significant changes during the year, the three-year financial summary, and other necessary information. These are normally provided by banks in annual reports.

86. **Adoption of CIFRS and the CIFRS for SMEs requires revisions of the current applicable laws and regulations.** The Law on Banking and Financial Institutions (1999) (Article 40) mandates NBC to "determine the chart of accounts, the related accounting standards, the rules for the consolidation of accounts, and disclosure of financial statements". For example, according to the provisions of the Law, Prakas B7-04-204/2004 is still effective and the presentation of financial statements required by it should be in line with International Accounting Standard (IAS) 30, which has significant differences with CIAS 1[43] and CIFRS 9.

Statutory audit and other forms of independent assurance

87. **Banks and financial institutions are required to have annual financial statements audited.** Prakas B7-04-204/2004 requires banks and financial institutions to have the annual financial statements audited by the authorized external auditor and submit them to NBC no later than March 31 of the next calendar year. The entities are also required by this Prakas to make those audited financial statements available to the public by June 30 of the next calendar year.

88. **Auditing standards for banks and financial institutions are set by ACAR to be CISA. ACAR** requires CISA to be applied fully for all types of entities. Section II.A *Accounting and Auditing Standards* provides more information on auditing standards in Cambodia.

89. **NBC approves audit firms of banks and financial institutions based on both quantitative and qualitative criteria**. Prakas on External Audit of Banking and Financial Institutions B7.017.335 dated November 14, 2017 (Prakas B7.017.335/2017) sets the following criteria

[43] International Accounting Standards as adopted in Cambodia

for audit firms to be accredited by NBC: i) registered at Ministry of Commerce, member of KICPAA, and licensed by ACAR; ii) at least two partners/auditors that are members of KICPAA, with at least three years' experience in banking audit, being independent, and having sufficient knowledge of banking legal framework; iii) the firm having at least three years' audit experience with good reputation; and iv) subject to regular quality assurance by NBC. Besides the quantitative criteria, NBC also reviews the firm's audit manual during the accreditation process. As at December 2020, nine firms were accredited.

90. **Audit firms of banks and financial institutions in Cambodia are rotated every three years, which is more frequent than accepted good practice**. Prakas B7.017.335/2017 requires that "an audit firm shall not serve as an engagement partner for a continuous period of more than three years with the same institution" and "the audit firm that has been rotated off the audit of an institution may resume its audit engagement with the same audited institution only after a lapse of two years from the last audit engagement". The Prakas, however, allows branches or subsidiaries of foreign banks to skip this firm rotation to select the same audit firm as their head office, provided the engagement partner within the audit firm is changed every three years. The rotation terms are much shorter compared to global good practice and may add costs to audits as new auditors need to invest in developing their knowledge of the client and spend significant time to be able to perform good quality audits.

91. **Audit firms and individual auditors are not allowed to provide audit services in case of conflict of interest.** The Prakas prohibits accredited firms from providing audit services if: i) there are any material direct or indirect financial and/or economic relations with the institution; ii) any member of the management of the audit firm is an immediate or close family member of the board, management, head of internal audit, head of compliance, head of finance, or other senior officer of the institution; or iii) there is any direct or indirect interest in the institution and/or any other relationship determined by the NBC to reasonably represent a conflict of interest with the institution. The Prakas does not include specific provisions for individual auditors[44] but states that auditors must comply with the code of ethics, which address conflict of interest.

92. **Audit firms are not allowed to provide the following services to an institution audited by the firm**: i) bookkeeping or other services related to the accounting records or financial statements; ii) design and implementation of financial information systems; iii) internal audit; iv) tax consulting; and v) any other services determined by the NBC to reasonably pose a conflict of interest. If the audit firm has already provided any of these services to the institution, an audit contract may not be signed until at least three years after provision of (i) and one year after any of the others.

93. **The Law on Commercial Enterprises (2005) provides that the shareholders appoint auditors.** Such appointments are done by ordinary resolution at the first annual general meeting of shareholders and at each succeeding annual general meeting. Prakas

[44] The Law on Accounting and Auditing (2016) defines an auditor as a 'natural person and legal entity who provide the auditing service and is member of the professional body of accounting and audit'.

B7.017.335/2017 requires the audit committee to review the external auditor's engagement every year, including an evaluation of the auditor's independence.

94. **NBC reviews the audit engagement of banks and financial institutions every year.** Prakas B7.017.335/2017 requires the institutions to: i) seek approval from NBC of the audit engagement before December 31st of each calendar year, attaching a list of engagement partners; and ii) provide the NBC with the terms of the engagement at least 30 days prior to the commencement of the engagement. NBC may revoke the accreditation of an audit firm and terminate its auditing services to an audited institution in case of a violation of law or a deterioration of competency, as determined by NBC. In case of dismissal of auditors, the NBC will be informed through the process of approving the new auditor appointment.

Audit committees

95. **The regulations require banks and financial institutions to have an audit committee**. Together with the risk committee, the audit committee is established under the board of directors. The committee should be chaired by an independent board member and comprised of experts in finance, accounting, legal, and banking. The committee is responsible for overseeing the institution's compliance with NBC requirements, the effectiveness of the internal control system, and the appropriateness of accounting methods.

Filing/publication of financial statements

96. **Bank and financial institutions are required to publish only annual financial statements but not any interim financial reports**. Prakas B7-04-204/2004 requires submission of annual financial statements to NBC no later than March 31 and publication of those financial statements no later than June 30 of the next calendar year. These financial statements are prepared in accordance with CIFRS, including management discussion and full audit report. Interim financial reports are not currently required to be published, although following international good practice some banks voluntarily do so. Listed banks publish quarterly financial reports in accordance with the SERC requirements.

Monitoring and Enforcement – Financial Reporting

97. **The Banking Supervision Department under NBC is responsible for reviewing financial statements of banks and financial institutions**. The review is focused on report adequacy, audit report, content of financial statements, and key findings of management letters. The review also covers a number of prudential reporting indicators such as adequacy of provisioning and financial soundness. The Banking Supervision Department also reviews the completeness and timeliness of financial statement submission.

98. **Enforcement of financial reporting requirements is not clearly provided in the regulations**. Prakas B7-04-204/2004, Prakas on Adoption and Implementation of Chart of Accounts for Banking and Financial Institutions (2002), and NBC Guidance on Periodic Financial Statements of Banks (2019) do not include a sanction provision. Nor are any specified for non-compliance of financial reporting in the chapters on sanctions and

penalties in the Law on Banking and Financial Institutions (1999). There are monetary sanctions for late reporting, including late reporting of audited Annual Reports[45], monetary and prison sanctions for providing supervisory inaccurate information[46], and sanctions for banks that do not have internal control systems aimed at monitoring the quality of accounting and financial information[47]. Finally, the Prakas on Internal Control, requires institutions to comply with legal and regulatory standards applying to accounting, financial reporting, and financial disclosure, and imposes more general sanctions[48]. NBC will determine the necessary sanctions to be applied based on the seriousness of the non-compliance and in accordance with the law. Sub-Decree 79/2020 provides for monetary sanctions on non-compliance with accounting and auditing standards, but not investigative and follow up procedures.

99. **NBC relies on AQMC to perform oversight on auditors of banks and financial institutions.** NBC is also a member of AQMC. One of the roles of this committee is to conduct quality review of all audit firms in Cambodia. Accredited firms providing audit services and auditors are obliged to cooperate with AQMC officials in inspecting the firms' audit quality control system, focusing on reviewing compliance with CISA. However, AQMC's capacity is still limited and reviews are infrequent. The audit firms are required to provide NBC with the outcome of the engagement quality control review. Applications to be accredited as auditors of banks and financial institutions include mainly quantitative criteria (years of experience, professional body membership, MEF audit license).

100. **Law and regulations do not require NBC to hold regular meetings with auditors; as a consequence, only ad-hoc meetings are taking place.** Instead, Prakas B7.017.335/2017 requires the auditors to communicate to NBC "immediately on any incidents concerning insolvency or significant risk leading to insolvency of the institution, failure to comply with applicable laws and regulations, and any existing or proposed state of affairs that may materially prejudice the institution's capacity to safeguard the interests of depositors and stakeholders". The Prakas also provides for bilateral meetings between NBC and auditors, or tripartite meetings among NBC, auditors, and auditees to discuss audit reports, irregularities, or any other necessary matters. Actions to be taken against qualified audit opinions are not specified in law. Good international practices suggest there should be systematic cooperation between auditors and supervisors.

Corporate Governance

101. **A Code of Corporate Governance is being developed.** Corporate governance for banks and financial institutions is currently regulated in the Law on Banking and Financial Institutions (1999), Prakas on Governance in Banks and Financial Institutions, 2008 (Prakas B7-08-211/2008), Prakas on Internal Control of Banks and Financial Institutions 2010 (B7-010-172/2010), and Prakas on Fit and Proper Regulatory Requirements for Applying

[45] Prakas on Reporting date for Commercial Banks and Specialized Banks
[46] Law on Banking and FI (1999)
[47] Law on Banking and FI (1999)
[48] Prakas on Internal Control

Entities and Licensed Banks and Financial Institutions (Prakas B7-08-212/2008). Cambodia is working on a Code of Corporate Governance with technical assistance from the IFC.

102. **Corporate governance regulations in the banking sector do not require or encourage any departures from financial reporting or auditing standard requirements**. Instead, Prakas B7-08-211/2008 requires the board and senior management to effectively use the work of auditors and internal control functions. Prakas B7-010-172/2010 requires all institutions to comply with legal and regulatory standards on accounting, financial reporting, and financial disclosures. According to the Prakas, if options can be considered, they shall be approved by the audit committee "in a prudential perspective, duly documented, and strictly adhered to". The Prakas also require the institutions to maintain adequate documentation as evidence for accounting entries.

103. **Corporate governance statements by banks and financial institutions have not yet been systematically prepared and disclosed.** International good practices recommend that each bank prepare an annual self-assessment of its compliance with the code that would be submitted to NBC, published on its website, and included in its annual report (using a comply or explain principle). Key information in the report may include: results of the self-assessment against the implementation regulation; share ownership details; frequency of board meetings; number of internal fraud cases and how the bank handled them; number of legal claims and the bank's settlement efforts; transactions with a conflict of interest; buy back of bank shares and/or bonds; and provision of funds for social activities and political activities with detail of the nominal value and recipients.

104. **The overall rating attributed to Cambodia under the performance indicator "Financial Reporting and Auditing for Banks" is 2.8 out of 4,** which equals the simple mean of the rating criteria comprising sub-indicators A and B below (2.8=(2.7+2.8)/2).

Performance Indicators – Financial reporting and Auditing for Banks

Sub-Indicator A. Financial Reporting and Auditing Requirements for Banks.

The attributed rating is 2.7, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e. 2.7 = (3+2+3)/3).

A.1. Financial reporting requirements for banks	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Banks are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.	**3.** Banks are required to prepare CIFRS[49] Annual Financial Statements[50] for both the legal and the consolidated entity.

[49] IFRS as adopted in Cambodia, which are IFRS without modification.
[50] According to the announcement of ACAR on January 3, 2019 and NBC on February 15, 2019, commercial banks, specialized banks, deposit taking MFIs and MDIs are required to fully adopt CIFRS for general purpose financial statements of financial year 2019 and onward.

3	In addition to requirements under "2": Banks are required to prepare a management report (or MD&A). Banks are required to apply IFRS for consolidated annual financial statements.	Banks's management discussions are published.[51] Banks submit interim financial reports to NBC periodically, however these interim reports are for prudential monitoring only and are not required to be published.[52]
4	In addition to requirements under "3": Banks are required to prepare interim consolidated financial statements.	

A.2. Audit requirements for banks		
RATING CRITERIA		**CAMBODIA RATING**
1	Criteria for "2" rating not met.	**2.** The Annual Financial Report is audited, but there is no apparent requirement for the auditors to attest to the separate management report (MD&A). Banks are required to form an audit committee, chaired by an independent board member and comprising relevant experts. See rating A.1 above, there is no requirement to submit interim financials and therefore no audit review. Auditors are required to be appointed by shareholders however in practice the auditors can be appointed by the board of directors or the audit committee.
2	The legal entity and consolidated financial statements of banks are subject to annual statutory audits. Shareholders (at the annual general meeting) or board of directors (i.e. a governance body independent of management) is legally responsible for the appointment and dismissal of auditors of banks.	
3	In addition to requirements under "2": The auditor's report is required to attest whether the management report (MD&A) and other financial information have been read for consistency with the financial statements. Banks are required to form an audit committee. At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.	
4	In addition to requirements under "3": Interim consolidated financial statements of banks are required to be reviewed by auditors.	

[51] Prakas B7-04-204/2004 requires banks to provide to the public information on overall strategy, compliance to laws and regulations, governance, key performance indicators, risk management policies, significant changes during the year, three-year financial summary, and other necessary information. These are normally provided by banks in their annual reports.
[52] NBC requirement

The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.

Auditors of banks are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.

A.3. Timeliness and public disclosure of financial reports for banks	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met.	**3**. All banks must publish their annual financial statements, audited by independent auditor by June 30 of the subsequent year (within 6 months).[53] These financial statements must include an audit report and management discussion.
2 Banks are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form. Legal requirements are such that access to financial statements is limited or costly. The deadline for publication of annual reports of banks is no later than 9 months after the reporting date.	
3 In addition to requirements under "2": The audit opinion is made publicly available. Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability. The deadline for publication of annual reports of banks is no later than 6 months after the reporting date.	
4 Banks are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available. Banks are required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.	

[53] Prakas B7.017.335/2017

Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.
The deadline for publication of annual reports of banks is no later than 4 months after the reporting date.

Sub-Indicator B: Monitoring and Enforcement of the Financial Reporting Requirements of Banks.

The attributed rating is 2.8, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.5 below (i.e. 2.8 = (3+4+3+2+2)/5).

B.1. Review of bank annual financial statements	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Review of the annual financial statements by the Banking Supervisor has *significant limitations.* **3** Review of the annual financial statements by the Banking Supervisor has *minor limitations.* **4** Review of the annual financial statements by the Banking Supervisor is *fully adequate*.	**3.** The Banking Supervision Department under NBC is responsible for reviewing financial statements of banks and financial institutions. The review focuses on report adequacy, audit report, content of financial statements, and key findings of management letters. Enforcement of financial reporting requirement is not clearly provided in the regulations. The Department relies on audit opinions to review the compliance with reporting standards and follow up with financial institutions and auditors if the audit opinion is qualified.

B.2. Reconciliation requirements between equity and regulatory capital of banks	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Reconciliation requirements between equity and regulatory capital have *significant limitations*. **3** Reconciliation requirements between equity and regulatory capital have *minor limitations*. **4** Reconciliation requirements between equity and regulatory capital are *fully adequate*.	**4.** Reconciliation requirements are fully adequate. Banks are required to prepare financial statements in accordance with CIFRS, in which the reconciliation is presented as a compulsory note to the financial statements. The CIFRS annual financial statements are audited, publicly disclosed, and reviewed by NBC.

B.3. Communication with external auditors about banks

RATING CRITERIA	CAMBODIA RATING
1 Criteria for "2" rating not met. **2** Communication between the Banking Supervisor and external auditors of banks have *significant limitations.* **3** Communication between the Banking Supervisor and external auditors of banks have *minor limitations*. **4** Communication between the Banking Supervisor and external auditors of banks is *fully adequate*.	**3**. Rotation of auditors and cooling off period are provided in regulations.[54] Auditors are required by regulation to comply with CISA.[55] Financial institutions send audit terms of reference to NBC for review before audit engagement. NBC has authority to approve or terminate the auditor. Law and regulations do not require NBC to hold regular meetings with auditors; although regulations provide for bilateral meetings between NBC and auditors, or tripartite meetings among NBC, auditors, and auditees. Currently only ad-hoc meetings take place. Audit firms are required to communicate to NBC the outcome of the engagement quality control review and also specified incidents, failures to comply, and specified existing or proposed states of affairs.[56]

B.4. Reporting on the review of financial reporting of banks

RATING CRITERIA	CAMBODIA RATING
1 Criteria for "2" rating not met. **2** Reporting by the Banking Supervisor on review of financial statements of banks have *significant limitations*. **3** Reporting by the Banking Supervisor on review of financial statements of banks have *minor limitations*. **4** Reporting by the Banking Supervisor on review of financial statements of banks is *fully adequate*.	**2.** NBC prepares an annual report on its activities, published on its website. The report provides a brief summary of recent supervision activities. The quality of financial reporting and auditing of banking and financial sector is not distinctly reported in the annual report.

B.5. Supervisory measures and sanctions for banks

RATING CRITERIA	CAMBODIA RATING

[54] Prakas B7.017.335/2017
[55] Law on Accounting and Auditing (2016)
[56] Prakas B7.017.335/2017

1 Criteria for "2" rating not met.
2 Supervisory measures and sanctions that can be imposed by the Banking Supervisor have *significant limitations*.
3 Supervisory measures and sanctions that can be imposed by the Banking Supervisor have *minor limitations*.
4 Supervisory measures and sanctions that can be imposed by the Banking Supervisor are *fully adequate.*

2. Enforcement of financial reporting requirements is not clearly provided in the regulations. The Law on Banking and Financial Institutions (1999) chapters on sanctions and penalties do not specify those applied for non-compliance with financial reporting. NBC determine the necessary sanctions to be applied based on the seriousness of the breach and in accordance with the law.

4. Insurance Sector

105. **The insurance sector consists of 34 institutions with gross premium incomes totaling USD 270 million for the 2020 calendar year**. The sector includes 11 life insurers,[57] 15 general insurers,[58] seven micro insurers,[59] and one reinsurer.[60] They comprise 18 foreign owned, 15 domestically privately-owned, and one state-owned insurer. None of the institutions have stocks listed on CSX, and none have bonds listed.

106. **The insurance sector has been growing rapidly from a small base**. The sector grew premiums at 27 percent (2017), 29 percent (2018), 29 percent (2019). In 2020, with COVID-19, growth was kept at 8 percent. While significant, this is consistent with general international trends for growing emerging markets.

Insurance sector regulation[61]

107. **ISD has until now been authorized by law to regulate and supervise all insurance operations in Cambodia.**[62] ISD has the power to issue regulations to regulate the industry, to undertake off-site and on-site inspections, to put in place sanctions, and to penalize all insurance institutions.

108. **An independent Cambodia Insurance Regulator was established after the completion of the review**. The Law on the Establishment and Functioning of a Non-Banking Financial Authority (2021) provides for an independent insurance regulator established within the

[57] Article 26, Law on Insurance (2014) defines life insurers.
[58] Article 23, Law on Insurance (2014) defines general insurers.
[59] Article 39, Law on Insurance (2014) defines micro insurers.
[60] Article 32, Law on Insurance (2014) defines reinsurers.
[61] Article 113 of Law on Insurance (2014) repealed the previous Law on Insurance (2000). However, insurance regulations issued in relation to Law on Insurance (2000) continue to be applied until new regulations are issued, except for any regulation 'contradicting the spirit' of Law on Insurance (2014). Sub-Decree on Insurance (106/2001), Prakas on Corporate Governance of Insurance (185/2007), Prakas 549/2008, Prakas on Life Insurance Business (608/2008) and Prakas on Publishing of Annual Financial Statements for General Insurance (619/2010) that were issued prior to the new law remain in force. Prakas on Granting Licenses for Reinsurance Business (329/2020) and the Law on The Establishment and Functioning of Non-Banking Authority (2021) have both been issued.
[62] Article 5 of Law on Insurance (2014)

NBFA. Its responsibilities include the supervisory functions relating to the insurance sector previously performed by ISD.[63] The Cambodian Insurance Regulator is a separate unit under the supervision of NBFA.[64] All regulations that are already in place and applicable to insurance will continue to remain in force until replaced by new laws and regulations.[65] The independent regulator has its own budget determined by its governing board.[66] Until the NBFA was fully established, the function of supervisor continued to be performed by ISD.[67]

109. **ISD monitors the submission of financial reports of insurance companies**. The supervisor is funded from the MEF budget. Insurance companies are required to prepare and submit audited annual financial statements in compliance with CIFRS to the supervisor by the end of March of the following year. Included in its responsibilities as supervisor is the review of annual reports prepared by insurance companies for conformity with CIFRS. The supervisor may ask either the insurer or its statutory auditors for clarifications.

110. **ISD prepares a report on its activities and publishes it on its website**. This annual report is not mandated by law but is voluntarily prepared by ISD to provide necessary information to the Government and stakeholders.[68] The report focuses on insurance sector operational, corporate governance, liquidity, and capital adequacy issues rather than compliance to accounting and auditing standards[69].

Financial Reporting Requirements for Insurance Companies

111. **Insurance companies are required to comply with CIFRS for general purpose legal entity financial statements.** Insurance companies must submit annual financial statements, in compliance with CIFRS and other effective laws,[70] to ISD. These financial statements must be audited and must be submitted to the supervisor within three months of the year-end to which they relate. Along with the submission of the annual financial statements, entities must submit the resolution of the ordinary general meeting, and reports of the executive body, the auditor, and the board of directors.[71] In addition, the entity is required to provide other relevant information when requested by the supervisor. The information

[63] Article 3 and Article 4, Law on The Establishment and Functioning of NBFA (2021)
[64] Article 11, Law on The Establishment and Functioning of NBFA (2021)
[65] Article 23, Law on The Establishment and Functioning of NBFA (2021)
[66] Article 8, Law on The Establishment and Functioning of NBFA (2021)
[67] The remainder of this section considers the responsibilities and activities as performed by ISD. It is understood that once the *Law on The Establishment and Functioning of NBFA* is fully executed, these responsibilities and activities will continue under the auspices of NBFA.
[68] The website is www.gdfi.mef.gov.kh/insurance. *[At the time of writing, the website returned a broken link]*. Reviewers did not see a copy of this report.
[69] ACAR has formed a compliance department which will in future be responsible for the compliance review.
[70] Article 49, Insurance Law 2014 'Within three (3) months after the end of each financial year, or within additional period of time permitted by MEF, the insurance companies shall submit annual financial reports audited by a permitted auditor to MEF. The reports shall be in accordance with International Financial Reporting Standards, existing laws, and other relevant regulations. The insurers shall publicly publish such annual financial reports in the summary forms determined by MEF.'
[71] Article 50, Insurance law 2014 'The insurance institutions shall submit financial reports and other documents as required by MEF.', read with Article 95 of the Sub-Decree on Insurance.

provided in a CIFRS format provides the base for prudential reporting. The requirements are applied only to legal entity financial statements, although CIFRS is permitted for consolidated financial statements.[72]

112. **Insurers submit financial reports and prudential reports to the ISD periodically.** Insurers are required to prepare monthly business statistics reports reflecting business transactions and claim settlements and submit these to the supervisor by the 15th of the following month.[73] These reports include solvency reports and brief income statements.[74]

113. **Insurers are required to publish an abridged version of the annual financial statements.** All insurers must publish their annual financial statements by June 30 of the subsequent year.[75] However, the regulations allow the insurers to publish the abridged version only and are silent on audit reports. The financial statements must be published in a popular newspaper for at least three consecutive days.[76] Insurers must also display the reports on a bulletin board at their head office and branch office for at least 30 days.

114. **Revisions of the current applicable laws and regulations may be required to ensure full adoption of CIFRS for general purpose financial statements.** Prakas on Accounting Guidelines for General Insurance Businesses 549/MEF/PrK, 2008 (Prakas 549/2008) sets out specific requirements for the preparation of the annual financial statements of general insurance companies and reinsurance companies. Article 2 includes the requirement that the "reports shall be based on the Cambodia Accounting Standard, the Cambodia Auditing Standard, and the Cambodia Financial Report Standard on Insurance. In case the above standards did not mention accounting treatment or requirements for information disclosure, the International Financial Report Standard shall be used instead." This appears to contradict Article 49 of the Law on Insurance (2014). Articles 5 to 9 of the Prakas provide accounting guidelines for the determination of certain accounting balances, including premiums, claims, and assets. Some of these requirements may be inconsistent with existing CIFRS or with future CIFRS. There are also gaps in the existing regulations relating to life insurance companies.

Statutory audit and other forms of independent assurance

115. **All insurers are required to have their annual general-purpose financial statements audited.** Article 49 of the Law on Insurance (2014) states that annual financial reports must be audited by a permitted auditor.[77] Prakas 549/2008 specifies that the auditors should be independent, be members of KICPAA, and be approved by MEF.[78] The appointment of

[72] Prakas 549/2008 includes certain specific guidelines to be used in the preparation of Annual Financial Reports (Article 2).
[73] Article 96 and 97 of Sub-Decree on Insurance, 22 October 2001, Prakas 549/2008, and Department Guidelines 2130 SHV.AUH, 2014
[74] Prakas 549/2008 and Prakas 619/2010 set specific information and reporting requirements for general insurers and reinsurers, however there is currently no specific requirement for life insurers. In the absence of any specific guidance, it is assumed that these Prakases also apply to life insurers.
[75] Article 1, Prakas 619/2010.
[76] Article 3, Prakas 619/2010.
[77] Article 2, Prakas 619/2010 uses the term 'certified independent auditor'.
[78] Article 3.1, Prakas 619/2010.

auditors must also be approved by the board of directors and the annual general meeting of shareholders. The names of auditors must be submitted to MEF each year prior to the end of the calendar year, and MEF is entitled to reject the auditors selected.[79] The regulation specifies some basic information to be included in the audit report, such as adequacy of accounting records, quality of bookkeeping system, and audit opinion, but does not mandate auditors to comply fully with ISA.[80] MEF may request additional work or clarifications as required.[81] In addition, the regulation requires that in certain circumstances, the independent auditors should report directly to the MEF.[82]

116. **Audit firms are rotated every three years, more frequently than suggested by international good practice**. Insurance regulations do not include requirements for the rotation of audit firms or for audit partners. However, the Law on Accounting and Auditing (2016) sets a maximum of five years for audit rotation and for a cooling off period. In practice, the MEF applies its authority to approve the auditor to require a three-year rotation of the audit firm, and to require a maximum of a five-year cooling off period, consistent with that required in the Banking sector (see paragraph 90 above). This application of authority results in a shorter rotation period than good practices would suggest and may increase the cost of audit, as new auditors need to spend time getting to know the client in order to be able to perform good quality audits. Good practice suggests rotation should be applied for individual audit partners, while retaining the audit firm for a longer period.

117. **Auditors are restricted in providing non-assurance services in the insurance sector, following Article 15 of the Law on Accounting and Auditing (2016).** The Law provides that auditors shall not conduct auditing services for any enterprises to which the auditors have provided accounting services during the last three years. The Law also prevents auditors with direct or indirect interests or management rights through spouses, relatives, or relatives by marriage up to a third level from conducting auditing services for those enterprises.

Audit committees

118. **The Prakas on Corporate Governance of Insurance No. 185 of 2007 (Prakas 185/2007) requires insurers to have an audit committee**.[83] The audit committee is required to be established by and under the board of directors. The committee should comprise at least 3 members, the majority of whom should be independent. No member can hold an executive position in the insurance company or a related company and shall not have any relationship which may affect independence of decisions in implementing the functions of the committee. Members of the committee select their own chair from among them. The board of directors must review the membership of the committee every two years. There

[79] Article 3.2, Prakas 549/2008
[80] Article 3.3, Prakas 549/2008
[81] Article 3.4, Prakas 549/2008
[82] Article 3.5, Prakas 549/2008
[83] Article 9, Prakas 185/2007

are no requirements regarding financial or auditing experience or qualifications of members.

119. **The main purpose of the audit committee is to facilitate the board of directors' responsibility related to the accuracy and transparency of accounting and financial reports and the reporting system of the company.**[84] The committee is responsible for monitoring and evaluating the quality of internal and external audits, and evaluating the sufficiency and effectiveness of administrative inspections, operations, and accounting, as well as the accuracy of the financial information. Appointments and terminations of auditor are not mentioned in the insurance regulations. According to the Law on Commercial Enterprises (2005), these decisions are made at the annual general meeting of shareholders.

120. **There are specific requirements for the board of directors, and by extension members of the audit committee, relating to integrity, competency (knowledge of the industry), diligence, and availability to attend meetings**.[85] The regulations require that at least two members of the board of directors are independent and non-executive, and that the chair of the board of directors is a non-executive. The regulations define an "independent director", including specifying limits on shareholdings, and requiring a cooling off period for previous executives, advisors, or business partners.

Monitoring and Enforcement – Financial Reporting

121. **ISD is responsible for reviewing the financial statements of insurers.**[86] Its review focuses on report adequacy, audit report, content of financial statements, and key findings of management letters. The supervisor also reviews the shareholder's report, management report, and other financial information. If the report is incomplete or unclear, the supervisor can require it to be completed or request clarification. The focus of the supervisor is on financial information which forms part of prudential supervision activities. The objective is to identify, investigate and understand material changes and variances. ISD does not specifically focus on compliance with CIFRS[87], although non-compliance may become apparent during the review.

122. **Enforcement of financial reporting requirements is provided for, albeit in general terms, in the regulations.** The regulations specify penalties for non-compliance with corporate governance,[88] non-compliance with accounting guidelines,[89] and non-compliance with timelines. Penalties include administrative sanctions such as the cessation of the right to issue new policies, withholding approval for new activities, and stopping the company's

[84] Article 8, Prakas 185/2007
[85] Articles 3 to 6, 185/2007
[86] MEF Procedures and Policy Manual
[87] ACAR has formed a compliance department which will in future be responsible for the compliance review.
[88] Article 10, Prakas 185/2007 imposes fines of KHR 10 million, and well as giving MEF the sole and complete authority to determine whether a person meets the criteria to be a member of the board.
[89] Article 12, Prakas 549/2008 imposes fines of KHR 10 to 20 million, as well as giving MEF the authority to decline the appointment of an auditor.

operation. Fines range from KHR 5 to 20 million. Monetary sanctions on non-compliances with accounting and auditing standards are provided in Sub-Decree 79/2020.

123. **ISD relies on AQMC to perform oversight on auditors.** One of AQMC's roles (of which MEF is a member) is to conduct quality review of all audit firms in Cambodia. Accredited firms providing audit services and auditors are obliged to cooperate with AQMC officials' inspection of firms' audit quality control system, focused on reviewing compliance with CISA. However, AQMC's capacity and the frequency of review are still limited.

124. **Law and regulations do not mention systematic collaboration between ISD and auditors of insurance companies.** ISD is not required to hold regular meetings with auditors; as a consequence, only ad-hoc meetings are taking place. The regulations only require auditors to report immediately to MEF any "violation of provisions of the insurance law and other regulations or the insurance company or staff of that insurance company committed fraud and dishonesty, contrary to the applicable laws", any "irregularity which may affect the benefits of consumers or debtors of the insurance company or other serious irregularities occurred", or any "failure to meet the requirements of solvency".[90] The regulations all permit MEF to require auditors to "provide additional information and clarify issues related to auditing" and to "conduct additional auditing as suggested by the MEF".[91] The regulations do not provide for bilateral meetings between MEF and auditors, or tripartite meetings among MEF, auditors, and auditees to discuss audit reports, irregularities, or any other necessary matters although it is understood these do occur on an ad-hoc basis. Good international practices suggest there should be more systematic cooperation between auditors and supervisors.

Corporate Governance

125. **Corporate governance for insurers is currently regulated by the Law on Insurance (2014) and Prakas 185/2007**. The regulations require MEF written approval before the appointment of any director, set out specific criteria for members of the board of directors of an insurance company, and establish minimum requirements for the composition of the board. They also include criteria for an audit committee. Cambodia is working on a Code of Corporate Governance with IFC technical assistance.

126. **Corporate governance regulations in the insurance sector do not require or encourage any departures from standard financial reporting or auditing requirements**. Instead, regulations on governance require the board and senior management to effectively use the work of auditors and internal control functions.

127. **Corporate governance compliance statements by insurers are not yet systematically prepared and disclosed.** International good practices recommend that each insurer prepare an annual self-assessment of their compliance with the corporate governance code, submit it to the supervisor, publish it on its website, and also include it in the annual report (following a comply or explain principle). Key information in the report may include:

[90] Article 3.4, Prakas 549/2008
[91] Article 3.5, Prakas 549/2008

results of the self-assessment against the implementation regulation; share ownership details; frequency of board meetings; number of internal fraud cases and how the bank has handled them; number of legal claims and the entity's settlement efforts; transactions with a conflict of interest; and provision of funds for social activities and political activities with detail of the nominal value and recipients.

128. **The overall rating attributed to Cambodia under the performance indicator "Financial Reporting and Auditing for Insurance Companies" is 2.4 out of 4**, which equals the simple mean of the rating criteria comprising sub-indicators A and B below (2.4 = (2.3+2.5)/2)).

Performance Indicators – Financial reporting and auditing for insurance companies

Sub-Indicator A. Financial reporting and auditing requirements for insurance companies.

The attributed rating is 2.3, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e. 2.3 = (3+2+2)/3).

A.1. Financial reporting requirements for insurance companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Insurance companies are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards. **3** In addition to requirements under "2": Insurance companies are required to prepare a management report (or MD&A). Insurance companies are required to apply IFRS for consolidated annual financial statements. **4** In addition to requirements under "3": Insurance companies are required to prepare interim consolidated financial statements.	**3.** Insurance companies prepare CIFRS compliant annual financial statements for the legal entity,[92] along with a separate management report that is submitted to the supervisor.[93] There is no specific requirement to produce consolidated CIFRS financial statements (although it is assumed that if applicable these will be produced on the basis of requirements of CIFRS). Insurance companies in Cambodia are currently not subject to consolidated reporting or waived of consolidated reporting in accordance with CIFRS. Simplified, non-CIFRS compliant interim reporting is required.[94]

A.2. Audit requirements for insurance companies	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met.	

[92] Article 49, Insurance Law (2014) "Within three (3) months after the end of each financial year, or within additional period of time permitted by MEF, the insurance companies shall submit annual financial reports audited by a permitted auditor to MEF. The reports shall be in accordance with International Financial Reporting Standards, existing laws, and other relevant regulations. The insurers shall publicly publish such annual financial reports in the summary forms determined by MEF."

[93] Article 50, Insurance Law 2014 "The insurance institutions shall submit financial reports and other documents as required by MEF", read with Article 95 of the Sub-Decree Insurance.

[94] Article 96 and 97 of Sub-Decree Insurance.

2	The legal entity and consolidated financial statements of insurance companies are subject to annual statutory audits. Shareholders (at the annual general meeting) or board of directors (i.e. a governance body independent of management) is legally responsible for the appointment and dismissal of auditors of insurance companies.	**2.** The annual financial report is audited, and auditors attest to accompanying material, but there is no requirement for them to attest to the separate management report.[95] Insurance companies are required to form an audit committee of a minimum of three members, the majority of which must be independent directors. There are no regulations in place to ensure a member has recent relevant financial or auditing experience.[96] Refer to comment A.1. above, there is no requirement to submit interim financials and therefore no audit review. Auditors are required to be appointed by shareholders and the appointment is subject to the express approval of the regulator.[97]
3	In addition to requirements under "2": The auditor's report is required to attest whether the management report (or MD&A) and other financial information in the annual report have been read for consistency with the financial statements. Insurance companies are required to form an audit committee. At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.	
4	In addition to requirements under "3": Interim consolidated financial statements of insurance companies are required to be reviewed by the auditors. The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience. Auditors of insurance companies are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.	

A.3. Timeliness and public disclosure of financial reports for insurance companies		
RATING CRITERIA		**CAMBODIA RATING**
1	Criteria for "2" rating not met.	**2.** All insurers must publish their annual financial statements, audited by an independent auditor by June 30 of the
2	Insurance companies are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.	

[95] Article 2 of Prakas 619/2010 uses the term 'certified independent auditor'.
[96] Article 9 of Prakas 185/2007 sets the criteria for audit committee members.
[97] Article 3.2 of Prakas 549/2008

	Legal requirements are such that access to financial statements is limited or costly. The deadline for publication of annual reports of insurance companies is no later than 9 months after the reporting date.	subsequent year (within 6 months).[98] The financial statements must be published in a popular newspaper for at least 3 consecutive days. Insurers must also display the reports on a bulletin board at their head office and branch office for at least 30 days.
3	In addition to requirements under "2": The audit opinion is also made publicly available. Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability. The deadline for publication of annual reports of insurance companies is no later than 6 months after the reporting date.	There is no requirement to publish audit reports. There is no requirement to publish a management report, and no requirement to publish any interim reports.
4	Insurance companies are required to make the full sets of legal entity and consolidated financial statements publicly available. The auditor's report is also made publicly available. Insurance companies are also required to publicly disclose the interim financial statements, with accompanying management discussion and analysis. Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost. The deadline for publication of annual reports of insurance companies is no later than 4 months after the reporting date.	

Sub-Indicator B: Monitoring and enforcement of the financial reporting requirements of insurance companies.

The attributed rating is 2.5, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e. 2.5 = (2+3+2+3)/4).

B.1. Review of the insurance company's annual financial statements		
RATING CRITERIA		**CAMBODIA RATING**
1	Criteria for "2" rating not met.	

[98] Prakas 549/2008 and Prakas 619/2010 set specific information and reporting requirements for general insurers and reinsurers, however there is currently no specific requirement for life insurers. In the absence of any specific guidance, it is assumed that these Prakas also apply to life insurers.

2	Review of the annual financial statements by the insurance supervisor has *significant limitations.*	**2.** There is a dedicated function to review financial statements including management letters and a detailed operation manual. Financial statements are reviewed for prudential information content, but not necessarily for CIFRS compliance.
3	Review of the annual financial statements by the insurance supervisor has *minor limitations.*	
4	Review of the annual financial statements by the insurance supervisor is *fully adequate*.	

B.2. Communication with external auditors on insurance companies		
RATING CRITERIA		**CAMBODIA RATING**
1	Criteria for "2" rating not met.	**3.** Auditors are required and protected by law to report in their audit report, and in certain circumstances directly to the regulator on significant issues.[99] There is a general rotation system for auditors,[100] enforced via the regulator, who has the right to approve auditors annually. Auditors are required to comply with standards of auditing.[101] The supervisor meets auditors as a group and individually on an ad-hoc basis. There is limited assurance that no material risks are left unaddressed.
2	Communication between the insurance supervisor and external auditors of insurance companies have *significant limitations.*	
3	Communication between the insurance supervisor and external auditors of insurance companies have *minor limitations*.	
4	Communication between the insurance supervisor and external auditors of insurance companies is *fully adequate*.	

B.3. Reporting on the review of financial reporting of insurance companies		
RATING CRITERIA		**CAMBODIA RATING**
1	Criteria for "2" rating not met.	**2.** The supervisor prepares a report on its activities which is published on its website, although there is no apparent legal obligation to do so. The report contains information on insurance sector operations, growth, liquidity, capital adequacy, and corporate governance, but does not focus on compliance to CIFRS. The report was not available to be reviewed.
2	Reporting by the insurance supervisor on the review of financial statements of insurance companies has *significant limitations*.	
3	Reporting by the insurance supervisor on the review of financial statements of insurance companies has *minor limitations*.	
4	Reporting by the insurance supervisor on the review of financial statements of insurance companies is *fully adequate*.	

[99] Article 3, Prakas 549/2008
[100] Law on Accounting and Auditing (2016), read with Prakas 563/2020
[101] Law on Accounting and Auditing (2016)

B.4. Supervisory measures and sanctions	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Supervisory measures and sanctions that can be imposed by the insurance supervisor have *significant limitations*. **3** Supervisory measures and sanctions that can be imposed by the insurance supervisor have *minor limitations*. **4** Supervisory measures and sanctions that can be imposed by the insurance supervisor are *fully adequate.*	**3.** Supervisory measures or sanctions can be imposed by the insurance supervisor for various elements of financial reporting. The supervisor can apply various measures (administrative, civil, criminal) on companies and/or directors for financial reporting. The measures/sanctions are sound with reasonable assurance that no material risks are left unaddressed. However, the focus of the supervisor is on financial information which forms part of prudential supervision activities. The supervisor does not focus on compliance with CIFRS, although non-compliance may become apparent during the review.

5. Micro, Small, and Medium-sized Enterprises

129. **MSMEs are a crucial part of the Cambodian economy and need a strengthened legal framework**. MSMEs contribute significantly to both the economic and social development of the country. The 2018 Annual Report of the Ministry of Industry, Science, Technology and Innovation indicated that MSMEs accounted for 70% of employment, 99.8% of companies, and 58% of GDP. However, corporate financial reporting requirements and enforcement for this sector need strengthening. Because there is no filing system for micro and small entities' annual financial statements (Note: Medium entities are required to e-file), information on quality, adequacy, and compliance of this sector's financial reporting is not available. Annual financial statements of MSMEs, except some MFIs, were not available for review for Section II.C.

Financial Reporting Requirements

130. **Simplified financial reporting requirements are not available for micro enterprises[102].** All companies, regardless of size and legal form, and not-for-profit organizations are required to prepare annual financial statements within three months after the financial year end.[103] MSMEs in Cambodia must use the CIFRS for SMEs (or can choose to use CIFRS) for annual financial statements. There is no simplified reporting requirement for micro enterprises.

131. **MSME classifications have been defined for tax incentives but are not yet used in corporate financial reporting regulations**. Entities have been classified into micro, small,

[102] A simplified Accounting Standard has been developed by ACAR and is subject to consultation.
[103] Law on Accounting and Auditing (2016)

medium, and large based on total revenues and number of employees, as presented in the following table issued by the Government in 2018.[104]

	Number of Employee	Annual turnover (KHR million)
Micro	Less than 10	Less than 250
Small	10 - 50	250 - 700
Medium	51 - 100	700 – 4,000
Large	Over 100	Over 4,000

In January 2021, the Government classified taxpayers into small, medium, and large enterprises based on business industry, revenue, and assets.[105] This classification, however, is for tax administration only and not for the purpose of differentiated financial reporting.

Statutory Audit Requirements

132. **The smallest enterprises are exempted from statutory audit.[106]** Enterprises below the threshold of at least two of the following three conditions are exempt: i) annual turnover of KHR 4,000,000,000 (approximately USD 1,000,000) or below; ii) total assets of KHR 3,000,000,000 (approximately USD 750,000) or below; iii) 100 employees or below. MSMEs who do not meet these criteria are subject to annual statutory audit.

133. **Audits of MSMEs are required to follow CISA and the Law on Accounting and Auditing (2016).** The external auditors (independent auditors) are required to apply CISA as issued by the IAASB. The auditor shall not perform audit for an enterprise or not-for-profit organization for more than five consecutive years and must ensure independence in accordance with the Law on Accounting and Auditing (2016). The auditor is entitled to receive notice of every meeting of shareholders and may attend and be heard on matters relating to his duties as auditor, at the expense of the company.

Audit Committee and Risk Monitoring Committees

134. **Regulations do not require MSMEs to establish an audit committee.** The Law on Commercial Enterprises (2005) does not specifically require an audit committee within the enterprise and leaves it as an option at the discretion of the board. Therefore, while listed companies, the financial sector, and insurers establish audit committees and risk monitoring committees as required by respective regulators, MSMEs do not normally have those overseeing structures. This differentiation in corporate governance requirements is in line with international good practice.

Monitoring and Enforcement – Financial Reporting

[104] Sub-decree 124 ANKr.BK in October 2018
[105] Prakas on Classification of Self-Assessed Regime Taxpayers, No. 009 SHV.PrK , January 2021 (Prakas 09/2021)
[106] Prakas 563/2020

135. **There is no filing system for MSMEs' annual financial statements.** Article 19 of the Law on Accounting and Auditing (2016) provides that "financial statements shall be the basis for fulfilling tax obligations in accordance with effective laws and regulations". This provision applies to all types of enterprises including MSMEs. There is no other regulation on monitoring and enforcement of MSMEs financial reporting. The reconciliation between tax administration and general-purpose financial reporting is not emphasized for MSMEs. Therefore, the observed practices show preparation and presentation of financial statements for MSMEs are more oriented toward compliance with tax legislation rather than the accounting standards. There is no specific guidance from the Tax Authority on the deadline, level of detail, and additional information to annual financial statements that enterprises need to submit. Without a requirement from regulators, lenders, or investors, there is little incentive for MSMEs to prepare high quality financial statements. There is no legal requirement for MSMEs to publish their financial statements. Those statements, hence, are mostly not accessible.

136. **The overall rating attributed to Cambodia under the performance indicator "Financial reporting and auditing exemptions and simplifications for commercial entities, including SMEs" is 3 out of 4**, which equals the simple mean of the rating criteria comprising sub-indicators A.1 and A.2 below (3 = (2+4)/2)).

Performance Indicators: Financial reporting and auditing exemptions and simplifications for commercial entities, including SMEs

Sub-Indicator A. Financial reporting and auditing requirements

A.1. Simplified financial reporting	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Financial reporting simplifications exist in the legal framework and these are based on an entity's legal form. **3** Financial reporting simplifications differ for some categories of entities and groups, differentiated by size and differentiation is based on one or two criteria. **4** Financial reporting simplifications are clearly differentiated by size of entities and groups and differentiation is based on at least three criteria.	2. Regulations require "large and medium enterprises" to adopt CIFRS and other enterprises to adopt the CIFRS for SMEs but does not have clear definition of "large" and "medium".[107]

A.2. Exemptions to perform statutory audits	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met.	

107 Prakas 068/2009 and Announcement 97/2009

2 Auditing exemptions exist in the legal framework and these are based on an entity's legal form.

3 Auditing exemptions differ for some categories of entities and groups, differentiated by size and differentiation is based on one or two criteria.

4 Auditing exemptions are clearly differentiated by size of entities and groups and differentiation is based on at least three criteria.

4. Audit exemption is given to micro enterprises.[108] Those exempted enterprises need to have at least two out of three conditions: i) annual turnover at KHR 4,000,000,000 (approximately USD 1,000,000) or below; ii) total assets at KHR 3,000,000,000 (approximately USD 750,000) or below; iii) having 100 employees or below.

6. State owned Enterprises

137. **The significance of the SOE sector to the economy has reduced significantly in the last 30 years.** This is a consequence of a deliberate strategy by the Cambodian government to move from a planned economy to a market driven economy, through the privatization of SOEs. In 1989, there were 187 fully state-owned enterprises in Cambodia. By the end of 2000, 160 had been privatized, of which 139 were leased to the private sector, 12 were transformed into joint ventures, eight had been sold, and eight liquidated (UNCTAD, 2003). As of the end of 2015,[109] there were reportedly 10 wholly owned and five jointly owned enterprises remaining. Excluding the electricity utility company, the revenue of the remaining wholly owned entities was USD 84.1 million in 2013.

138. **The electricity utility company, Electricité du Cambodge, is the remaining significant SOE with reported revenues of USD 1,148 million in 2017.[110]** The entity reported a net profit in 2017 of USD 114 million and notes in its annual report that it has been an autonomous wholly state-owned limited liability company since 1996. It further notes that it is responsible for its profits and losses and liable for its debts to the extent of the value of its assets. The electricity utility company produces annual reports, however the most recent report (in English and in Khmer) available on its website is for 2017 and reports only financial and operational performance highlights. It is not clear from the report whether its financial results are audited, nor is it clear what accounting framework is applied. Other evidence indicates that it recorded revenues of USD 1.6 billion and a net profit of USD 162 million for 2019. This evidence also indicates that it is considered to have a solid credit rating.

139. **Each SOE in Cambodia operates under the supervision of a line ministry or government institution and is audited by the National Audit Authority**. The audits of the National Audit Authority focus on accounting records, management systems, operational controls and programmes of the relevant institutions. The audits are not yet fully compliant to ISAs.

[108] Prakas 643/2007

[109] The data included in this paragraph in respect of 2013 and 2014 is drawn from the OECD issues paper *'What is the corporate governance landscape in Cambodia?'* presented at the 4th Meeting of OECD-Southeast Asia Corporate Governance Initiative in April 2017. More recent data is not available.

[110] Information obtained from the Electricité du Cambodge Annual Report, 2017. This is the most recent annual report available online.

Internal audit teams of the line ministries are consulted by the National Audit Authority to ensure greater transparency and accountability. Regular reports regarding the effectiveness and efficiency of government funds are submitted to the National Assembly.

140. **The Law on General Statute of Public Enterprises outlines a number of rules governing SOEs.** SOE boards of directors of must meet at least once every three months and have the following duties: (i) decide on the development projects of the enterprise, (ii) periodically evaluate the results achieved and set forth adjusting measures for implementation, (iii) decide on the proposed budget, (iv) adopt the balance and management of various accounts, (v) determine the organizational structure of the enterprise, the statute of the personnel and the salary system, and (vi) adopt the public bidding. Among the members of the board of directors, there must be one representative of the employees selected from and by the employees of the SOE.

141. **Of the joint venture SOEs, three are listed entities, one is a bank and two are insurance entities.** Those entities are subject to the same financial reporting requirements of other entities in their respective sectors or categories, which are described in the respective sections of this report. The financial statements of four of these entities were included in the reviews presented in Part C below.

142. **No financial statements review has been performed on the wholly owned SOEs.** Aside from the electricity utility company, and based on the information available to the reviewers, the reduced significance of the other entities to the economy is insufficient to justify a review. The electricity utility company is clearly still economically significant. However, the absence of available, relevant, and up to date financial statements prevents its review. Financial transparency and adequate financial disclosures should be required in SOEs in order to facilitate good governance, fiscal discipline, and optimum allocation of scarce resources.

7. The Accountancy Profession

143. **Cambodia has one professional body, KICPAA, for both professional accountants and auditors.** The Law on Accounting and Auditing (2016) provides that the accounting and auditing professions in Cambodia are governed and supported by only one professional body of accounting and auditing with professional independence. The establishment, organization, and functions of KICPAA are provided in Sub-Decree No. 113 of 2019 on Establishment, Organization, and Functioning of Institution of Accounting and Auditing Profession (Sub-Decree 113/2019).

144. **KICPAA membership is a requirement to practice accounting or auditing in Cambodia**. Membership of KICPAA and a professional license issued by ACAR are conditions for any individual to practice the accounting or auditing profession in Cambodia. The Law also distinguishes two categories: license for professional accounting services and license for auditing services. There is no separate organization or legal requirement for public sector accountants.

145. **KICPAA is expected to help develop the profession.** Besides representing and managing its members, KICPAA is also required to: i) work with the ACAR to set up and manage the training curriculum for Cambodia's certified accountants and to supervise exams for certified accountants and auditors; ii) promote improvements to accounting studies curricula to bring them in line with international standards; and iii) draw up a professional code of ethics for accountants and auditors.

146. **KICPAA is made up of a general assembly of members, board of directors, four specialist commissions, and an administrative secretariat.** An annual general assembly approves the annual report, appoints the external auditor, elects the board of directors when appropriate, and approves any critical issues brought by the board of directors. An extraordinary general assembly is held if 30 percent or more of all registered active members call for it. The term of the Board of Directors is four years. Board members can be elected for a maximum two terms. The Board consists of representatives of licensed auditors, licensed accountants, participating members, associate members, KICPAA's secretariat, ACAR, and other regulatory bodies. The Board meets at least four times per year to make decisions on strategic, policy, and organizational issues. KICPAA manages and supports its members through four commissions: Registration and Membership Commission; Technical Commission; Education and Training Commission; and Investigation and Disciplinary Commission. The daily administrative and technical activities are managed by the KICPAA Secretariat.

147. **KICPAA issues different types of memberships, among which only practicing auditors or accountants are "active members".** Active members can be individuals or legal entities. Active members shall possess a certified degree recognized by KICPAA, meet all the requirements in the internal rules and code of conduct for KICPAA membership, and have at least three years of experience. For certified accountants, the three years can include accounting or auditing experience. For licensed auditors, this experience must be in auditing. Honorary members are individuals who have maintained registration in the professional list for at least 30 years but are no longer practicing the profession. Participating members are individuals who have completed national accounting study programs or who possess professional accounting degrees from overseas that are recognized by KICPAA. Associate members are university graduates who have applied for membership. Reserved members are those who are taking courses in national certified accounting, accounting techniques, certified accounting under joint examination, or other certified accountant programs accredited by KICPAA.

KICPAA membership breakdown as of October 2020

Member Category	Male	Female	Total
Firm members	N/A	N/A	56
Active members	119	38	157

KICPAA membership breakdown as of October 2020

Member Category	Male	Female	Total
Honorary members	*N/A*	*N/A*	*N/A*
Participating members	*N/A*	*N/A*	*N/A*
Associate members	22	10	32
Student members	6	7	13
TOTAL	**147**	**55**	**258**

148. **Training and examination of local certified public accountants has now begun.** The Cambodia CPA Program launched on February 10, 2021. This program is governed by a National Committee for Cambodia Certified Public Accountants, led by the Secretary of State of the MEF and including representatives from KICPAA, SERC, Ministry of Labor and Vocational Trainings, NBC, MOEYS, and Cambodian Higher Education Associations. There are two sub-committees, for examination and for accreditation, under the National Committee. KICPAA is considering the introduction of an accounting technician's qualification.

149. **The national professional qualification is being developed under the authority of the National Education Board**. Membership of the Board includes a broad range of stakeholders including representatives from the ACAR, the SERC, higher education institutions, and NBC. The national professional qualification will be based on the Association of Chartered Certified Accountants' (ACCA) Fundamentals Level Program and will be complemented by locally developed taxation and law modules. KICPAA received technical assistance from the ICAEW to develop training materials and an exam question bank. Assistance is being sought from a number of institutions to implement this program, including the ICAEW, as well as the Institute of Singapore Chartered Accountants. While the new program rolls out, KICPAA continues to rely on International Education Standards (IES) compliant qualifications from foreign accounting professional bodies to grant membership. These are ACCA from the United Kingdom, Chartered Professional Accountants of Canada, Certified Practicing Accountants of Australia, ICAEW, Malaysian Institute of Accountants, Philippines Institute of Certified Public Accountants, and Institute of Singapore Chartered Accountants.

150. **KICPAA's active and affiliate members are required to comply with KICPAA's CPD policy.** CPD involves completion of 120 hours of learning activities over a rolling three-year period. Members must attend 16 hours of planned CPD activities organized by KICPAA every year. The remaining balance can be achieved through a variety of activities which include personal study, reading or writing articles, in-house training at the member's place of

employment, training provided by professional training centers, and other forms of training recognized by KICPAA. Members declare this compliance to KICPAA annually

151. **ACAR approval of a new code of ethics for professional accountants is still pending.** The KICPAA Code of Ethics for Professional Accountants and Auditors was first issued in 2005, based on the IESBA Code of Ethics at the time. Responsibility for setting ethical requirements for professional accountants in Cambodia was assigned to ACAR in the Law on Accounting and Auditing (2016). In late 2017, KICPAA submitted a new code of ethics to the ACAR. This updated ethical requirement aligned with, and in some instances stricter than, the 2016 IESBA Handbook on International Code of Ethics for Professional Accountants. The proposed code is still pending ACAR's approval, and needs to take into account the updates of the 2018 IESBA Handbook[111].

152. **I&D are not yet effective.** The Law on Accounting and Auditing (2016) mandates the ACAR to take disciplinary measures or impose administrative punishments against professional accountants who violate accounting and auditing regulations. The Law specifies the applicable penalties for violations.. Sub-Decree 113/2019 gives KICPAA's Investigation and Discipline Commission the authority to accept and address complaints by a third party against members or between members, address members' failures in complying with the code of ethics and examine and impose punitive measures on members who commit wrongdoing. However, neither of these bodies are yet active due to lack of resources.

153. **KICPAA is not yet a full member of IFAC**. IFAC is a globally recognized hallmark of a high-quality PAO. Membership requirements include appropriate governance structures, operational and financial viability, and compliance with its SMOs.[112] IFAC requires members to adopt and implement international standards. Cambodia is as associate member but is not yet in compliance with IFAC requirements on its code of ethics, I&D, or quality assurance to become a full member.

154. Following an approach similar to IFAC methodology in assessing the performance indicator "Accountancy Profession" in Cambodia, the ROSC A&A team concluded that while the **IESs and the Code of Ethics are partially adopted, a proper Investigative and Disciplinary System is not yet adopted**, as per details provided in the following tables:

Performance Indicators – Accountancy Profession

International Education Standards

Rating criteria		Rating for Cambodia & justification
Adopted	The requirements of the IES in their entirety in effect as of the time of the	**Partially Adopted**

[111] The MEF has recently announced the full adoption of Code of Ethics for Professional Accountants issued by IFAC including current and future updates if any, in line with Prakas 779 (2020) on *Implementation of the Code of Ethics for Certified Public Accountants and Auditors in Cambodia*.
[112] https://www.ifac.org/who-we-are/membership

	assessment have been adopted for all aspiring professional accountants and professional accountants as defined in the jurisdiction.	KICPAA relies on some foreign accounting professional bodies - "certified degree recognized by KICPAA"[113] - to grant membership.[114] Hence, the compliance to IES in initial professional development (IPD) and CPD of KICPAA members relies on those of the recognized international accountancy organizations. The Cambodia CPA program launched on February 10, 2021. KICPAA received technical assistance from ICAEW to develop the training materials and exam question bank for the local CPA, which comply to IES as reported by KICPAA.
Partially Adopted	Requirements from an earlier version of IES have been adopted. *or* Some of the requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for professional accountants. *or* The requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for a segment of the profession.	
Not Adopted	The requirements of the IES have not been adopted.	

Code of Ethics for Professional Accountants

Rating criteria		Rating for Cambodia & justification
Adopted	The Code of Ethics for Professional Accountants in effect as of the time of the assessment has been adopted for all professional accountants.	**Partially Adopted** KICPAA's Code of Ethics for Professional Accountants and Auditors was first issued in 2005, based on the IESBA Code of Ethics at the time. With the passage of the Law on Accounting and Auditing (2016), ACAR is responsible for setting ethical requirements for professional accountants in Cambodia. In late 2017, KICPAA submitted a new Code of Ethics to the ACAR. This updates
Partially Adopted	An earlier (2009 or later) version of the Code of Ethics for Professional Accountants has been adopted for all professional accountants. *or* Some requirements of the Code of Ethics for Professional Accountants in	

[113] Sub-Decree 113/2019

[114] Those recognized international accountancy organizations are ACCA, the Chartered Professional Accountants of Canada, the Certified Practicing Accountants of Australia, and the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Philippines Institute of Certified Public Accountants, and the Institute of Singapore Chartered Accountant. The list can be updated.

	effect as of the time of the assessment have been adopted. *or* The Code of Ethics for Professional Accountants has been adopted for a segment of the profession.	ethical requirements to align with the 2016 IESBA Handbook on International Code of Ethics for Professional Accountants. KICPAA also indicates that in some instances the proposed Code would be stricter than the IESBA Code of Ethics. The proposed Code is still pending ACAR's approval and needs to take into account the updates of 2018 IESBA Handbook. The MEF has recently announced the full adoption of Code of Ethics for Professional Accountants issued by IFAC including current and future updates if any, in line with Prakas 779 (2020) on *Implementation of the Code of Ethics for Certified Public Accountants and Auditors in Cambodia*.
Not Adopted	The Code of Ethics for Professional Accountants has not been adopted. *or* A pre-2009 version of the Code of Ethics for Professional Accountants has been adopted.	

Investigative and Discipline System

Rating criteria		Rating for Cambodia & justification
Adopted	An I&D system, incorporating all of the requirements of SMO 6, has been established and is operational for all professional accountants.	**Not Adopted** Sub-Decree 113/2019 also assigns KICPAA's Investigation and Discipline Commission to accept and address complaints by a third party against members or between members, address members' failure to comply with the code of ethics and examine and impose punitive measures on members who commit wrongdoing. However, neither ACAR's Audit Oversight Board nor KICPAA's Investigation and Discipline Commission are yet active due to lack of resources.
Partially Adopted	An I&D system, incorporating all of the requirements of SMO 6, has been adopted and is operational for a segment of the profession. *or* An I&D system for all professional accountants has been established and is operational but only incorporates some of the requirements of SMO 6.	
Not Adopted	I&D system is not established or	

An I&D system, incorporating all of the requirements of SMO 6, has been established but is not yet operational.

8. Audit Regulation, Quality Assurance, and Public Oversight

155. **Statutory auditors and audit firms in Cambodia are regulated by the Law on Accounting and Auditing (2016)**. The Law establishes the licensing requirements, rights, and obligations, and other rules governing the provision of audit and other services. Licenses must be renewed every two years. All statutory auditors and audit firms must be members of KICPAA. For more details on qualification and licensing requirements see Sections II.B.6. *The Accountancy Profession* and II.B.8. *Professional Education and Training*.

156. **There are 138 auditors and 52 audit firms (24 domestic firms and 28 foreign firms) registered with KICPAA and licensed by ACAR.** A list of licensed auditors and audit firms is publicly available on the KICPAA website. Auditors either work in audit firms (89 auditors) or practice as sole practitioners (28 auditors). All audit firms are required to register as limited liability companies. In 2020, about 6,000 commercial enterprises were subject to statutory audits.

157. **Transparency reports will be required from audit firms for PIEs**. There is currently no legislative requirement for audit firms of PIEs to prepare an annual transparency report. MEF is drafting a new Prakas on Accounting and Auditing Licenses, which will require audit firms to prepare quarterly, bi-annual, and annual transparency reports. ACAR will provide guidance on format and contents.

158. **Cambodia allows foreign certified accountants to apply to be licensed but has no MRAs to recognize other countries' auditor licenses or qualifications.** KICPAA and ACAR allow Cambodian and other nationalities, holding a foreign accountancy qualification to apply for membership of KICPAA and be licensed by ACAR if they meet criteria including: i) three years' experience in auditing and accounting; ii) currently practicing; and iii) in compliance with KICPAA rules and code of conduct.[115] Foreign certified public accountants are also required to take exams on Cambodian business law and taxation to be licensed. Foreign individuals are required to stay in Cambodia for at least 182 days every year to maintain their audit license.

159. **Licensed auditors are not required to have professional indemnity insurance**. Legislation does not require the auditor or audit firm to have professional indemnity insurance nor to agree a liability cap with the client and record it in the engagement letter. However, several audit firms obtain professional indemnity insurance to cover audit risk. Audit firms that are part of international networks follow network policy. There is no aggregate data available on the impact of this, although reviewers found no evidence of claims.

[115] Sub-Decree 113/2019

160. **Provision of non-audit services and other possible conflicts of interest are regulated in Article 15 of Law on Accounting and Auditing (2016).** The Law provides that auditors shall not conduct auditing services for any enterprises who had accounting services provided by the auditors during the preceding three years. The Law also prohibits auditors from conducting audit services for enterprises in which they have direct or indirect interests or management rights through their spouse, relatives, or relatives by marriage up to a third level.

Quality assurance and audit oversight system

161. **AQMC was established in 2016 as a regulatory authority for oversight of audit professions, firms, and their professional bodies**. [116] Its functions include: 1) preparation of policy, legal procedure, forms, and guidance for monitoring and evaluating the quality of audit and assurance of auditors and audit firms in Cambodia; 2) inspection of the implementation of audit and assurance standards, audit quality standards, and the ethics of auditors and audit firms in Cambodia; and 3) provision of technical advice about standards on audit and assurance, audit quality standards, and the code of ethics. AQMC is currently chaired by currently chaired by a MEF Secretary of State and comprises members from NBC, SERC, ISD, General Department of Taxation, ACAR, KICPAA, and six other members who are practitioners. All members are appointed by the Minister of Economy and Finance for a three-year period, with the possibility of being appointed for a second term. AQMC has no permanent audit inspection staff but outsources every review.

162. **In addition to state financing, AQMC may receive contributions from any sponsor, which could affect its independence**. The AQMC annual budget is about USD 40,000 for quality assurance activities. AQMC is funded from the Government budget and donors' contributions. Government budget allocation is made annually, taking into account the surplus/deficit from the previous year. AQMC is allowed to "get any sponsor from charity, national non-government and international organizations, and other sources".[117] This enables potential donations from the profession, which may affect the independence of the inspection. The regulations should be updated to clarify these independence and conflict of interest issues.

163. **AQMC's annual report is submitted to MEF but not made publicly available**. The annual report contains information on inspection activities, findings from inspections along with recommendations, and the AQMC plan for the upcoming year. However, the report is not published. Findings from reviews of each audit firm are sent to the firm directly.

164. **AQMC face some challenges in conducting quality assurance in terms of getting access to information**. AQMC inspectors have had difficulties accessing information from auditors or audit firms in a timely manner to conduct quality assurance. Issues include receiving only partial disclosure regarding clients and services provided by the auditors

[116] Prakas on Establishment of the Audit Quality Monitoring Committee No.340, dated April 4, 2016 (Prakas 340/2016)
[117] ibid

and difficulties accessing comprehensive information on budgeted fees per hour, current spending, and relevant fees for all commitments. Clearance from headquarters is used by audit firms to explain delays in the provision of information. The lack of annual transparency reports by auditors of PIEs, as mentioned previously, also contributes to AQMC's challenges in accessing information.

165. **AQMC is further refining its strategy and approach and considering a new regulatory framework in terms of revenue and enforcement**. Since 2019, AQMC has prepared a strategic document mapping AQMC responsibilities and priorities and including an annual work plan as part of the mid-term work plan. The work was done by AQMC's management team with assistance from international experts. Enhancement of the regulatory framework to strengthen enforcement and revenue of the body is also being considered.

166. **AQMC is not yet a member of IFIAR**. AQMC is considering applying for membership of IFIAR, with the aims to exchange experience with other members and obtain better knowledge in conducting quality assurance inspections.

Quality assurance review procedures, approach, and communication of findings

167. **AQMC has adopted a mixed-approach to selecting audit engagements for review, which is a combination of risk-based and cyclical approach**. The cyclical approach is based on client type and auditors' experience. Auditors of PIEs are reviewed every three years, while others are subject to review every six years. 10 audit firms (three or four firms auditing PIEs and six or seven firms auditing non-PIEs) are expected to be inspected every year. Auditors of PIEs can be inspected regardless of the cycle when the risk is considered high.

168. **AQMC has developed a quality assurance manual with support from donors and professional bodies**. The manual includes self-assessment questionnaires to be completed by auditors and review checklists to be completed by inspectors. The process involves interviews with key staff, review of auditors' working papers, and review of the auditors' manuals and guidelines. The inspection methodology focuses on the responsibility of statutory auditors and audit firms in terms of implementation of standards and legal requirements in conducting an audit. The review procedures are in line with international standards (ISAs and ISQC-1[118]). AQMC uses a grading system based on the quantity and seriousness of non-compliances and their aggregated effects. Further investigation may be required in case of serious violation.

169. **Review results are disseminated by AQMC directly to the audit firms**. Upon completion of an inspection a closing meeting is held with the reviewed firm to discuss preliminary findings. The draft inspection report and action plan are prepared and sent to the reviewed firm. The reviewed firm is required to comment and confirm the action plan within two weeks. Upon confirmation, the final report is issued by AQMC.

[118] Replaced by International Standards on Quality Management 1 and 2 in December 2020, with effectiveness from December 15, 2022

170. **AQMC does not engage with audit committees or other bodies charged with governance within audit clients to discuss review findings**. The AQMC discusses review findings with inspected audit firms only. There is no legal basis for engagement with audit committees or other bodies charged with governance within audit clients. The AQMC may consider performing outreach to audit committees in the future to help raise awareness of the valuable information available to them as a result of audit oversight and quality assurance.

Quality Assurance Inspectors

171. **Recruiting qualified experienced reviewers remains a challenge.** AQMC outsource inspection activities. Between four and seven reviewers are hired for two to three weeks for each review. All reviewers are required to have a certified public accountant qualification and at least three to five years' audit experience, the lead reviewer should have more than five years reviewing experience. From the beginning of the quality review process and for the pilot period from 2017-2020, the same lead reviewer was involved in all reviews, a retired partner of one of the big 4 audit firms who was involved for about 10 years in global quality reviews in many countries in Europe, Africa, Americas, and Australia. AQMC is supporting future inspectors to gain the necessary professional qualifications. This is, however, a pilot arrangement and relies heavily on donor financial support. A more sustainable, recurring financial mechanism for audit inspection activities is still under consideration.

172. **The inspectors' remuneration is determined and paid by AQMC.** Inspectors are outsourced and paid as consultants based on the time provided. AQMC members are paid by government budget.

173. **AQMC ensures that inspectors are independent of the profession.** To ensure the independence of inspectors and/or manage conflicts of interest, all inspectors/reviewers are required to sign declarations of independence and declare their past practices. Due to the limited number of qualified accountants available in the country, the inspection team still includes some practicing auditors. Their independence is managed by AQMC through an engagement checklist and control procedures.

Investigations and sanctions

174. **Audit firms that received low scores in quality assurance reviews were not sanctioned before 2021.** AQMC has authority to require a firm to take corrective action on findings of non-compliance. There are three types of report for inspection: General Compliance Report; Follow-up Report; and Committee Consideration Report. The latter may require a firm to take corrective action on findings, offer remedial CPD training, or have its license suspended or revoked. There are no monetary sanctions. During a three-year pilot period no sanctions were applied, even when the review outcome was unsatisfactory. Due to COVID-19, AQMC decided to extend the pilot for a further year, so no sanctions were applied to firms that 'failed' reviews performed in 2020. Sanctions will apply from 2021.

175. **The outcomes of quality assurance reviews are used to improve education, training, or CPD requirements for the profession**. AQMC uses findings from reviews to conduct annual

training for firms. The training has been assisted by ICAEW under a donor funded project. All audit firms are invited to attend the training.

176. **There is no appeal process for disciplinary action.** ACAR is working with ICAEW to develop an appeal process for disciplinary action which they expect to finalize by the end of 2021.

177. **The overall rating attributed to Cambodia under the performance indicator "Audit Public Oversight" is 3 out of 4**, which equals the simple mean of the rating criteria comprising sub-indicators A and B below (3 = (2.8+3.3+3)/3)).

Performance Indicators – Audit Public Oversight

Sub-indicator A: Audit Oversight System.

The attributed rating is 2.8, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.4 below (i.e. 2.8 = (3+3+3+2)/4).

A.1. Membership of the audit oversight authority governing body	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for '2' rating not met. **2** Membership comprises representatives of the profession or the majority (more than 50%) are practitioners. **3** Membership comprises a majority (more than 50%) of non-practitioners and a minority of practitioners. **4** Membership comprises only non-practitioners, who are independent from the profession, according to IFIAR Core Principle 2.	3: AQMC is the regulatory authority for the audit profession. It is currently chaired by a MEF Secretary of State and comprises members from various regulators as well as practitioners. The majority of members are non-practitioners. All members are appointed by the Minister of Economy and Finance for a three-year period, with the possibility of being appointed for a second term.

A.2. Scope of the audit oversight system	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for '2' rating not met. **2** The audit oversight authority has oversight of: (i) the approval and registration of auditors and audit firms; (ii) the adoption of standards on professional ethics and internal quality control of audit firms and auditors; and (iii) continuing professional education. **3** In addition to requirements under "2": The audit oversight authority oversees the quality assurance system. **4** In addition to requirements under "3": The audit oversight authority oversees the investigative and administrative disciplinary systems.	**3.** Approval of auditors and audit firms are monitored by the sector regulators. Registration of auditors and audit firms are done with ACAR. AQMC conducts audit firm quality reviews every year to oversee compliance with auditing standards and professional ethics, and the firm's quality assurance system. The investigative and administrative disciplinary system is not yet effective.

A.3. Funding of the audit oversight system	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for '2' rating not met. **2** Current funding levels are not sufficient to cover the audit oversight authority's core activities. **3** Current funding levels are sufficient to cover the audit oversight authority's core activities, but concerns exist as to sustainability. **4** Current funding levels are sufficient to cover the audit oversight authority's core activities and are sustainable. Funding is secured and free from undue influence by auditors.	**3.** Main sources of funding for AQMC operation are Government budget and donors' contribution. Government budget allocation is made annually, taking into account the surplus/deficit from the previous year. Legislation also allows AQMC to "get any sponsor from charity, national non-government and international organizations, and other sources". While funding of the AQMC appears independent and sufficient, it is not clear how sustainable it is. Potential donations from the profession may affect the independence of the inspection.

A.4. Reporting by audit oversight authority	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for '2' rating not met. **2** There are no legal obligations to publish annual work plans, activity reports, or outcome of inspections at the aggregate level or on a firm-by-firm basis. **3** Legal requirements are in place to prepare and publish annual work plans and summary reports of annual activities within a specified timeframe. **4** Annual work plans, activity reports, and the outcome of inspections (at the aggregate level or on a firm-by-firm basis) are published annually in accordance with legal requirements and following IFIAR Core Principle 3.	**2.** AQMC is required to report annually on its activities to MEF. The report is not published. Findings from review of each audit firm are sent to the firm directly. The report contains information on inspection activities, findings from inspections along with recommendations, and the AQMC plan for the upcoming year.

Sub-indicator B: Audit Quality Assurance.

The attributed rating is 3.3, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e. 3.3 = (3+3+4+3)/4).

B.1. Legal mandate for audit quality assurance inspections	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met.	

2	There is a requirement for the work of auditors to be subject to inspection for adherence to quality standards.	**3.** AQMC is legally established as the regulatory authority for oversight of audit professions, firms, and their professional bodies. [119] However, AQMC face some challenges in conducting quality assurance in terms of getting access to information.
3	Inspections for adherence to quality standards by auditors are required to be performed by a separate body which acts in the public interest.	
4	Inspections for adherence to quality standards by auditors of PIEs are performed by a body independent from the accountancy profession with the legal mandate and authority to perform this oversight role.	

B.2 Requirements for audit quality assurance inspectors

RATING CRITERIA		CAMBODIA RATING
1	Criteria for "2" rating not met.	**3.** Recruiting qualified experienced reviewers is a challenge. There are minimum requirements for professional experience of inspectors. For the pilot period, the lead reviewer is a retired partner of one of the big 4 audit firms. AQMC has staff studying professional qualifications.
2	QA inspectors are required to have professional experience in auditing and financial reporting.	
3	QA inspectors are required to be independent of the auditor under review and free of conflict of interest.	
4	Inspectors of auditors of PIEs are required to undertake continuing professional development and specialized training on quality assurance and in other relevant areas based on the nature and complexity of PIEs in the jurisdiction, including industry specialized knowledge.	

B.3 Frequency of audit quality assurance inspections

RATING CRITERIA		CAMBODIA RATING
1	Criteria for "2" rating not met.	**4**. AQMC has a mixed-approach to selecting audit engagements for review, combining risk-based and cyclical. The cyclical approach is based on client type and auditors' experience. Auditors of PIEs are reviewed every 3 years, while the others are subject to review every 6 years.
2	Auditors are selected for inspection according to a minimum cycle of at least once every 6 years.	
3	The minimum cycle for inspection of auditors of PIEs is at least once every 3 years.	
4	The QA body also takes into consideration risk-based criteria when determining which auditors to select for inspection.	

[119] Prakas 340/ 2016

B.4 Audit quality assurance inspection procedures and findings[120]	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** QA inspection procedures are performed according to a defined methodology. Inspection procedures include on-site review of firm-wide procedures for compliance with legal, ethical, and professional standards. QA inspection findings are shared with the auditor in a written report. **3** In addition to requirements under "2": QA activities also include on-site inspection of selected audit files and working papers, for compliance with legal, ethical, and professional standards. QA reporting procedures include circulation of a draft inspection report to the auditor for comment and action plans to address the findings prior to issuance of a final report. **4** In addition to requirements under "3": QA inspection procedures and outcomes of reviews are also subject to internal quality control within the QA body to promote high quality and consistency in performing inspections. QA reporting procedures includes follow up on the status of remediation of the findings that the auditor has committed to address.	**3.**[121] AQMC developed its quality assurance manual with support from experienced and reputable foreign professional bodies. The review procedures are in line with good international practices. The AQMC uses a grading system based on the quantity and seriousness of non-compliances and their aggregated effects. Review results are communicated to audit firms and a closing meeting is held with the reviewed firms. The reviewed audit firms are required to comment and confirm the action plan within two weeks. Upon confirmation, the final report is issued by the AQMC. Audit firms receiving a low score in the QA review are not sanctioned before 2021.

Sub-indicator C: Investigations and Sanctions.

The attributed rating is 3.

C.6. Audit quality investigations and sanctions	
RATING CRITERIA	**CAMBODIA RATING**
1 Criteria for "2" rating not met. **2** Some investigations and sanctions exist but these are not effective and rarely applied in practice.	

[120] Public disclosure of findings is addressed by sub-indicator A.4. "Reporting by Audit Oversight Authority"
[121] Although Cambodia meets the requirements for a 4 rating, as the process is still in pilot phase it has been rated 3.

3	Investigation systems target non-compliance, but sanctions are not commensurate with the severity of non-compliance.	**3.**[122] AQMC has authority to require a firm to take corrective action on findings of non-compliance. The report may require a firm to take corrective action on the finding, undertake specific CPD training, or may suspend or revoke its license. To initiate the review process, AQMC decided to start with a 3-year pilot period, meaning that there was no sanction if the outcome of the review was not satisfactory. Due to COVID-19, this was extended by one year. The actual review actions will start from 2021.
4	Effective systems of investigation and sanctioning are in place and sanctions are commensurate with the severity of non-compliance. Mechanisms to receive information anonymously (including from the public) regarding non-compliant actions taken by auditors of PIEs are in place. Such information can trigger an investigation.	

9. Professional Education and Training

178. **There are many universities in Cambodia offering accounting degrees and courses**. Universities offering a four-year Bachelor of Accounting include public schools such as the Royal University of Law and Economics (RULE) and National University of Management (NUM) and private schools such as CamEd Business School, University of Management and Economics, and other private universities recognized by MOEYS. NUM also offers a Master of Business Administration in Accounting.

179. **Accounting curricula and quality vary among universities.** CamEd is an ACCA accredited training provider. It has developed a comprehensive curriculum of studies which include detailed learning objectives and assessment methods for each course. The program includes 11 courses which are based on ACCA's Certified Accounting Technician's Program and F Level Professional Program. It also offers several foundation business topics in the first year. Other universities just use international textbooks without detailed learning objectives or assessment methodology. The training method in universities other than CamEd is course-based without internship. There is no national competency framework or national standard curriculum for the Bachelor of Accounting, universities are autonomous in developing and updating training programs.

180. **There is little consultation with employers or market surveys in curriculum development.** Interviews with accounting firms and investors revealed concerns about the knowledge and skills of accounting graduates. Extensive in-house training is normally required upon commencement of employment, especially in terms of the competencies needed for a qualified accountant or auditor rather than basic accounting concepts.

181. **CIFRS-based textbooks and teaching resources in local language are not available.** Universities are using English textbooks to teach CIFRS subjects. The ability of lecturers

[122] Although Cambodia meet the requirements for a 4 rating, as the process is still in pilot phase it has been rated 3.

themselves to absorb modern accounting standards and practices, and to develop Khmer language textbooks, teaching resources, and examinations is still a challenge. In developed economies, the market for textbooks allows publishing houses to hire professors and professional editors to develop these materials and update them on a regular basis. In Cambodia, the size of the market could not sustain the costs required to develop the required textbooks. This language barrier for many teachers and students affects the quality of accounting education in Cambodia.

182. **University teaching needs more investment in both quantity and quality.** MOEYS advises that all higher education institution teachers should have at least a master's degree, but statistics show that only 29 percent have even a bachelor's degree. Teacher pay rates are low. Many teachers work part-time for several universities, which creates a disincentive for any of the universities to invest in improving teachers' competency if it is to be shared with competitors. There is little participation of practitioners in teaching. Recent reforms of the legal accounting framework from rules-based, prescriptive French accounting practices to U.S. accounting practices and then to CIFRS add more challenges for accounting teachers.

183. **Although the level of tuition in Cambodia is much lower than international practices, affordability is still a problem for many students.** Annual tuition is around USD 500 per annum. Many students must work to finance their studies. The situation is so common that most universities offer alternative class options to their students, including weekend and evening lectures. This is not conducive to dedicating a significant amount of time to studying outside the classroom and may be a contributing factor to the low pass rate reported by some universities.

184. **Cambodian universities cooperate with international PAOs or foreign universities to strengthen their curriculum**. CamEd is an ACCA accredited training institute and draws its curriculum and resources from the ACCA program. Public universities such as RULE have cooperation agreements with foreign universities. These agreements are not based on reciprocal arrangements, which would indicate equivalence of foreign and local degrees, but do contribute to strengthening training materials of Cambodian universities.

10. Setting Accounting and Auditing Standards

185. **ACAR (formerly NAC) is responsible for setting accounting and auditing standards for Cambodia.** The Law on Accounting and Auditing (2016) mandates ACAR to prepare, update, and approve drafts of accounting standards, standards on auditing, and rules and regulations on enforcement of those standards. Prakas on Organization and Functions of ACAR, No. 953 of March 26, 2018 (Prakas 953/2018) mandates the Technical Department of ACAR to draft accounting and auditing standards, conduct research and study for the development of standards, organize public consultation, discuss technical aspect of the standards with stakeholders, and disseminate the standards and guidelines. Based on ACAR's proposals, MEF issue legislation to announce adoption of the standards. The prevailing sets of standards in Cambodia are CIFRS, the CIFRS for SMEs, and CISA, all are in line with international standards and have automatic update provisions. Issuance of other

necessary locally developed standards, such as simplified accounting standards for smaller and micro enterprises in Cambodia, would need to go through the steps as mentioned in Prakas 953/2018.

186. **The Law requires that membership of ACAR includes institutional representatives and practitioners**. ACAR is one of the six regulators under the Non-Banking Financial Service Authority (NBFA). The NBFA is governed by the Council. The members of the Council include:

1.	Minister of the Ministry of Economy and Finance	Chairman
2.	one representative from Ministry of Economy and Finance	Vice-Chairman
3.	one representative from Ministry of Economy and Finance	member
4.	one representative from the National Bank of Cambodia	member
5.	one representative from the Council of Ministers	member
6.	one representative from the Ministry of Commerce	member
7.	one representative from Ministry of Justice	member
8.	Director General of the General Secretariat of NBFA	member
9.	Director General of the Insurance Regulator	member
10.	Director General of the Security and Exchange Regulator of Cambodia	
11.	Director General of Social Security Regulator	
12.	Director General of Financial Trust Regulator	
13.	Director General of Accounting and Auditing Regulator	
14.	Director General of Real Estates and Pawnshop Business Regulator	
15.	three independent professionals proposed by the minister of the Ministry of Economy and Finance	

187. **ACAR's operation is funded by the state budget.** The annual budget is about USD 513,380..

188. **ACAR is responsible for translation of international standards into Khmer and their publication as an official version.** New standards are translated into Khmer by freelance translators and reviewed by the Technical Department of the General Department of ACAR before publication. ACAR estimate it will take up to two years to complete the translation process for all standards. The Khmer version of the updated CIFRS is not yet officially available. Translation of CISA has not yet been done.

189. **ACAR has not been actively involved in international standard setting processes.** ACAR does not participate in the IASB or IAASB Annual Conferences or working groups, nor has it joined public consultations of those organizations.

190. **An independent Cambodia Accounting and Audit Regulator was established within the new NBFA after the completion of this assessment**. The Law on the Establishment and Functioning of a Non-Banking Financial Service Authority (2021) provides for an independent accounting and audit regulator established within NBFSA. Its responsibilities include the supervisory functions currently performed by ACAR. The Cambodian Accounting and Audit Regulator will be a separate unit under the supervision of NBFA.

C. OBSERVED FINANCIAL REPORTING PRACTICES AND PERCEPTIONS

191. **The observed financial reporting practices suggest that gaps exist between the applicable legislative requirements and actual practice**. Non-compliance with applicable financial reporting standards and filing requirements were identified, ultimately leading to limited availability of financial information in the market to support economic decision making. The compliance gap is an indication that further capacity strengthening is needed for institutions responsible for audit oversight and for enforcement of financial reporting practices.

192. **The ROSC A&A process included reviews of financial statements and regulators reports and discussions with stakeholders**. The objectives of this section are to: (a) corroborate the findings from the assessments of A&A standards (Section II.A) and the institutional framework for corporate financial reporting (Section II.B) with reference to financial statements issued and reports from the regulators, where they are available; and (b) gather perceptions on the demand for and quality of financial information from users of financial statements. Reports prepared by SERC, NBC, and ISD on reviews of financial statements are not published. Therefore, this section is largely based on compliance reviews of financial statements performed as part of this ROSC A&A, results of perception surveys, and discussions held with users of financial statements and auditors. Similarly, AQMC does not publish the detailed reports on compliance with applicable auditing standards by auditors. This limited the information available on systemic issues in audit quality for ROSC A&A review.

FINANCIAL STATEMENTS REVIEW

193. **Limited reviews of financial statements were performed to assess the compliance gap and the quality of financial information available in the market**. The ROSC A&A team reviewed a sample of financial statements to assess the extent to which they complied with the financial reporting framework they purport to be prepared in compliance with CIFRS[123] or the CIFRS for SMEs[124]. Conclusions should be treated with a degree of caution, given the limited sample size and inherent problems in examining the compliance gap the reviewer of financial statements cannot be certain that everything that should have been disclosed has indeed been disclosed. Furthermore, financial statements of entities in similar economic sectors could reasonably be expected to have similar formats and disclosures and therefore it is relatively easy for those preparing financial statements to make them appear to comply simply by conforming to a typical format without regard to the entity's underlying financial transactions and position.

194. **A total of 19 sets of financial statements prepared in accordance with CIFRS or the CIFRS for SMEs were reviewed[125]**. The sectors and types of entities were selected based on their importance to the national economy:

- four non-financial institution exchange-listed entities;
- five insurance companies;
- five banks and two MFIs using CIFRS; and
- three MFIs using the CIFRS for SMEs.

195. **In terms of economic significance for the country, the sample of 16 CIFRS financial statements reviewed included**:

- Nearly all companies with equity listed on CSX (i.e. four of five non-financial institutions[126] and the one bank with equity listed, or in the process of listing);
- About half of the institutions with debt listed on CSX (i.e. two MFIs and one bank with debt listed); and
- A further three banks and five insurance companies with neither equity nor debt listed on CSX.

Pervasive issues across all industries

196. **There were some examples of good practice, but the overall quality of financial reporting needs improvement due to likely non-compliance with CIFRS and the CIFRS for SMEs identified in several areas**. None of the audit reports on the financial statements reviewed were qualified, which could suggest the attainment of at least the minimum level of compliance with the standards, assuming that audits were adequately performed. The

[123] For the purpose of this review, CIFRS extant at 31 December 2019 is assumed to be identical to IFRS as issued by the IASB extant at 31 December 2019.
[124] For the purpose of this review, CIFRS for SMEs extant at 31 December 2019 is assumed to be identical to the IFRS for SMEs as issued by the IASB extant at 31 December 2019.
[125] The financial statements of the largest SOE were not available for review (refer paragraph 138).
[126] One equity issuer's 2019 annual financial statements were not made available and therefore were not reviewed.

review of the sample of financial statements from all sectors and across all ownership structures revealed some instances of questionable financial reporting practices, and some cases of probable non-compliance with CIFRS and the CIFRS for SMEs. The issues identified impact on the quality of financial information presented and disclosures, ultimately leading to less reliable information being available for decision making and accountability of those charged with governance.

197. **Pervasive CIFRS compliance issues observed in all industries included**:

- **Financial statement presentation:**[127] Management generally appeared to have considered some aspects of materiality. However, the organization and flow of financial statements was sometimes very difficult to follow with much redundant information presented and far too many boilerplate disclosures. This cluttering denies external resource providers the entity-specific information that CIFRS specifies disclosure of, consequently inhibiting their abilities to make their own projections of the reporting entity's future cash flows and to assess the stewardship of management.
- **Disclosure of significant judgments made in applying accounting policies:**[128] Some entities omitted these disclosures. Other entities identified seemingly insignificant judgments while omitting seemingly significant judgments. Some entities disclosed inadequate boilerplate information about the significant judgments they identified, thus denying external resource providers the entity-specific information about significant judgments they need to inform their resource allocation decisions and to hold management to account.
- **Disclosure of key measurement assumptions:**[129] Generic information was typically provided rather than quantified entity-specific explanations of the assumptions made and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year. Consequently, external resource providers are denied the fuller understanding of management's key measurement assumptions that are required to inform their resource allocation decisions and to hold management to account.
- **Disclosure of events after the reporting period:**[130, 131] Despite the COVID-19 pandemic's effect on international global supply chains and the European Union (EU) decision to withdraw substantial tariff waivers from particular Cambodian imports, some entities disclosed no significant events after the end of the reporting period. Other entities provided only inadequate boilerplate disclosures. Consequently, external resource providers are denied the entity-specific decision-useful information that is required about the nature and the effects of material post-balance sheet events.

[127] CIAS 1 Financial Statement Presentation
[128] Paragraphs 122-124 of CIAS 1
[129] Paragraphs 125-129 of CIAS 1
[130] CIAS 10 Events After the Reporting Period
[131] The financial statements reviewed were generally approved for issue towards the end of March 2020 when information was publicly available about the COVID-19 pandemic and its associated economic impacts (see for example, on 09/03/2020 IMF https://blogs.imf.org/2020/03/09/limiting-the-economic-fallout-of-the-coronavirus-with-large-targeted-policies/).

- **Depreciation/amortization:**[132] Disclosed depreciation policies for property, plant, and equipment, intangible assets, and investment property are boilerplate and also likely inconsistent with the depreciation principle of reflecting the consumption of an item's service potential. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions.
- **Income taxes:**[133] There were insufficient disclosures about the estimates and other judgments made in recognizing and measuring uncertain tax positions and the recoverability of tax losses. Also, inadequate boilerplate disclosure of tax rate reconciliations. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions.
- **Fair value measurement:** Shortfalls observed included: (i) not remeasuring to fair value financial instruments accounted for using a fair value model; (ii) omitting disclosure of fair values of financial instruments; (iii) likely inappropriately concluding that fair value approximates carrying amount for all of the entity's financial instruments; and (iv) inadequate disclosures, including not identifying the level of the fair value measurement hierarchy.[134] Incomplete fair value measurement disclosures potentially detract from users' abilities to make informed resource allocation decisions and to hold management to account.
- **Liquidity risk disclosures:**[135] Although disclosures were made about how liquidity risk is managed and the nature and extent of the liquidity risk to which the entities are exposed, improvements could be made by: (i) being more entity-specific in explaining how liquidity risk is managed; (ii) using more appropriate time bands; (iii) including all off-balance sheet items; (iv) preparing maturity analysis using undiscounted cash flows; and (v) allocating liabilities to the earliest period in which the entity can be required to pay. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions about exposure to and the management of liquidity risk.
- **Market risk disclosures:**[136] Most entities provided only boilerplate disclosures about how they managed market risk and there was tenfold variation in the range identified by different entities as representing the limit of the reasonably possible change in interest rates for 2020. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions about exposure to and the management of market risk.
- **Asset impairment testing:** Likely non-compliance with aspects of the reporting of asset impairment testing was observed across all industries. However, because different

[132] CIAS 16 Property, Plant and Equipment, CIAS 38 Intangible Assets, and CIAS 40 Investment Property
[133] CIAS 12 Income Taxes
[134] CIFRS 13 Fair Value Measurement and CIFRS 7 Financial Instruments: Disclosures
[135] CIFRS 7
[136] CIFRS 7

impairment tests are applied to particular entities' assets these issues are reported on in different ways.[137]

Non-financial institution exchange-listed companies

CIFRS compliance issues

198. **All non-financial institutions reviewed likely did not comply with at least some aspects of CIFRS in some key areas**, even if the non-compliance presented itself in different ways. Areas of likely non-compliance with CIFRS that are pervasive across all industries are set out above.

199. **Additional areas of likely non-compliance with CIFRS that were commonly observed** in the non-financial institutions' CIFRS financial statements reviewed, that likely detract from users' ability to use that financial information as inputs to inform resource allocation decisions and to hold management to account, include:

- **Incomplete disclosures of impairment of non-financial assets possibly impact the presentation of financial position.**[138] Despite being identified as involving key measurement assumptions, inadequate disclosures and possible inconsistencies with the underlying economics were observed.
- **Possibly deficient financial asset impairment testing and incomplete credit risk disclosures potentially deny users a proper understanding of credit risk exposures and how credit risk is managed.**[139] The entities reviewed appeared to ignore the expected credit losses (ECLs) potentially present in financial assets other than trade receivables. Some also appeared to underapply the simplified ECL model to their trade receivables, and make no provision for ECLs, despite identifying ECLs as involving key measurement assumptions and disclosing significant trade receivables being long past due (and inconsistently with ECLs being identified as a key audit matter by the entity's external auditors). Moreover, all entities reviewed provided insufficient entity-specific disclosures about their application of the ECL model and some entities inappropriately claimed to have no significant concentrations of credit risk.

200. **Other CIFRS non-compliance issues observed for non-financial institution's financial statements** that likely detract from users' ability to use that financial information as inputs to inform resource allocation decisions and to hold management to account, include:

- **Going concern disclosures:** Despite the COVID-19 pandemic's effect on international global supply chains and the EU decision to withdraw substantial tariff waivers from particular Cambodian imports, a company operating in an industry widely reported to be severely impacted by these events, that also reported being in breach of significant loan covenants: (i) inexplicably, disclosed that "No adjusting or significant non-

[137] For example, for financial asset impairment testing: (i) most insurance companies reviewed applied CIAS 39 *Financial Instruments: Recognition and Measurement*; (ii) other financial institutions reviewed using CIFRS applied CIFRS 9 *Financial Instruments*; (iii) other entities using CIFRS used alternative methods under CIFRS 9 that are not available to financial institutions; and (iv) the entities using the CIFRS for SMEs applied Section 11 of the CIFRS for SMEs.
[138] CIAS 36 Impairment of Assets
[139] CIFRS 7 and CIFRS 9

adjusting events have occurred between the 31 December 2019 reporting date and the date of authorization of these financial statements."; [140] and (ii) did not disclose any information about possible material uncertainties that may cast doubt upon the entity's ability to continue as a going concern.[141] Consequently, external resource providers are denied the entity-specific decision-useful information that is required about the nature and the effects of material post-balance sheet events and possibly significant uncertainties about its ability to continue as a going concern.

- **Questionable classifications:** Insufficient disclosures supporting some classification judgments deny external resource providers information about the nature and the extent of the entity's resources and obligations which could affect their resource allocation decisions and could be useful in holding management to account. For example, judgments in: (i) differentiating between changes in accounting estimates, changes in accounting policies, and the correction of prior period errors;[142] and (ii) determining the degree of influence (particularly control and significant influence) when classification presumptions are rebutted.[143]
- **Unrecognized assets and liabilities:**[144] Some entities appeared to have not recognized in their balance sheets some present rights and obligations that likely satisfied the relevant recognition criteria. Omitting items from the balance sheet denies external resource providers information about the entity's resources and obligations that they need to inform their resource allocation decisions and to hold management to account.

Financial institutions: banks and microfinance

CIFRS compliance issues

201. **All financial institutions reviewed likely did not comply with at least some aspects of CIFRS in some key areas**, even if the non-compliance presented itself in different ways. Areas of likely non-compliance with CIFRS that are pervasive across all industries are set out above.

202. **Additional areas of likely non-compliance with CIFRS observed that are particularly relevant to financial institutions**, because of the nature of their business and so much of the CIFRS accounting for financial instruments being predicated on the reporting entity's business models, include:

- **Deficiencies in disclosures about business models and financial instrument risk management.** Disjointed and boilerplate disclosures were observed in the financial institution financial statements reviewed that likely insufficiently reflect the reporting

[140] CIAS 10 *Events After the Reporting Period*, paragraph 21 requires disclosure of information about the nature and estimated financial effects of non-adjusting events (or a statement that such estimate cannot be made)
[141] CIAS 1 and CIAS 10
[142] In some cases this leaves the reader wondering if particular adjustments are: (i) corrections of prior period errors; (ii) changes in accounting estimate; (iii) changes in presentation or classification following a significant change in the nature of the entity's operations or a review of its financial statements; (iv) or something else.
[143] CIAS 1, CIAS 28 Investments in Associates and Joint Ventures, and CIFRS 10 Consolidated Financial Statements
[144] CIAS 12 and CIAS 40

entities' actions, estimates, and other judgments in applying their business models and financial risk management policies on which much of CIFRS 9's financial instrument accounting is predicated. Such deficiencies deny external resource providers the required entity specific information needed as inputs to their resource allocation decisions and to hold management to account.

- **Possible deficiencies in loan loss provisioning that could impact users' understanding of the financial institutions loan losses and credit risk exposures.** In common with the findings of others reviewing the initial application of IFRS 9 (albeit in other jurisdictions),[145] the review identified likely deviations from CIFRS 9's ECL model that, without access to management for clarification, are difficult to reconcile with the requirements of CIFRS 9. For example: (i) making little, if any, adjustment for forward looking information, including macro-economic variables;[146] (ii) using a simplified approach for short-term receivables that involves using only Stage 1 and Stage 3; (iii) seemingly following Cambodian regulatory guidance in a manner that is inconsistent with CIFRS 9;[147] and (iv) disclosing that ECLs are accounted for in respect of loan commitments but appearing to measure the ECL in respect of loan commitments at nil.
- **Incomplete credit risk disclosures could impact users' understanding of the financial institution's exposure to and the management of credit risk.** In common with the findings of others reviewing the initial application of IFRS 9 (albeit in other jurisdictions), the review identified likely deviations from CIFRS 7's credit risk disclosures. For example: (i) cluttering—boilerplate, lengthy, and disjointed disclosures possibly concealing non-compliance with CIFRS's ECL model;[148] and (ii) inadequate disclosures of material assumptions—for example, the range above which an increase in probability of default is considered to be significant, information about changes in the assumptions made from those used previously, the quality and nature of collateral held and quantitative information about collateral held in respect of credit-impaired financial assets, and entity-specific information about significant judgments and sources of estimation uncertainty related to the ECL model.

Insurance Companies

[145] See, for example: (i) ESMA Report Enforcement and regulatory activities of European enforcers in 2019 (https://www.esma.europa.eu/sites/default/files/library/esma32-63-846_2019_activity_report.pdf); and (ii) JSE's Final Findings Of Our Thematic Review For Compliance With IFRS 9 and 15 (https://www.jse.co.za/content/JSEStatementsReviewsandReportsItems/IFRS%209%2015%20Thematic%20Report%202019.pdf)

[146] Some of the entities reviewed argue that management cannot identify any reasonable correlation between the macro-economic variables and the financial institution's historical losses. This seems improbable given economic reality as evidenced by competitor institutions that do identify relevant correlations to support the adjustments they make.

[147] Some other financial institutions reviewed appropriately dealt with such differences by creating separate reserves within equity, thus avoiding potential non-compliance with CIFRS 9.

[148] For example, lengthy disclosures over multiple pages about how they incorporate forward-looking information into their significant increase in credit risk (SICR) test and the measurement of ECLs, despite a further statement deep in their financial statements to the effect that 'forward-looking information is not incorporated in the company's SICR test or ECLs measurement because management has concluded that no macro-economic variables demonstrate a strong relationship with the ECL.', this conclusion seems unlikely to hold true.

CIFRS compliance issues

203. **All insurance companies reviewed likely did not comply with at least some aspects of CIFRS in some key areas**, even if the non-compliance presented itself in different ways. Areas of likely non-compliance with CIFRS that are pervasive across all industries are set out above. Of those, the following were particularly relevant to insurance entities in the sample:

- **Financial statement presentation and disclosure:** In addition to there being too many boilerplate disclosures, some balance sheet and income statement items appeared to be inappropriately aggregated, presented, or disclosed.[149]
- **Financial instrument risk management disclosures:** Insurance companies had significant exposure to financial assets and typically were exposed to manage at least credit risk, market risk, and liquidity risk. The disclosures evidence use of boilerplate language, frequently excluding or providing incomplete insight into concentration risks[150] (for example 64% of assets invested with one counterparty), and used questionable time bands (e.g. a single category for 'more than one year' when in excess of 99% of the assets and liabilities are in that category).[151]
- **Disclosure of key measurement assumptions:** Measurement of insurance liabilities are subject to significant estimation risks, particularly as regard claims experience and persistency. This estimation risk increases as the potential duration of the contract extends. This is particularly the case in emerging markets and underdeveloped insurance markets where there is little historical data to draw on. Disclosures of key measurement assumptions used generic rather than quantified entity-specific explanations of the assumptions made and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year.[152]

204. **Particular areas of likely non-compliance with CIFRS arising from activities unrelated to insurance contracts include:**

- **Overall issues:** A number of general issues were noted in the financial statements. In addition to the specific signs of boiler-plating, a number of other accounting policies and note formatting showed signs of a boilerplate approach. Financial statements had evidence of poor quality-control practices, in some cases including both numerical and textual errors. There were also significant variations in the numbers presented in the financial statements that were not explained anywhere in the financial statements. Requirements of CIFRS were sometimes poorly executed, resulting in either redundant or useless information. The organization and flow of the financial statements was sometimes very difficult to follow.

[149] CIAS 1, paragraph 29 requires the disaggregation of material items of a dissimilar nature or function.
[150] CIFRS 7, paragraph 35B
[151] CIFRS 7
[152] CIAS 1, CIFRS 4 *Insurance Contracts,* and CIFRS 7

205. **Issues with disclosures and application of CIFRS appeared likely in some key areas particularly relevant for the insurance industry**,[153] including information about insurance risk, credit risk,[154] liquidity risk, and fair value measurement. The compliance issues arose in different ways as described below.

- **Insurance contract risk management disclosures:** Insurance risk management disclosures generally excluded descriptions of product specific information, sources of economic and insurance data, and comparisons of actual versus expected.[155] Incomplete disclosures about an entity's exposure to and management of insurance risks potentially detract from users' abilities to make informed resource allocation decisions and to hold management to account.
- **Related Parties:** Most of the companies have material related party relationships, and there was substantial disclosure in the financial statements for these. However, in general, there was insufficient information to explain the nature of the relationships, how the risk exposures were managed, and whether and to what extent transactions were at arms-length[156]. External resource providers are denied a fuller understanding of the risks and obligations the entity assumes. This is particularly the case for related party transactions where considerations other than commercial may drive the decision-making processes. An understanding is required to inform resource allocation decisions and to hold management to account.

CIFRS for SMEs financial statements

206. **The sample of CIFRS for SMEs financial statements reviewed is limited to only three MFIs that are regulated by the NBC**. Other MFIs had not published 2019 financial statements at the time of the review. First year adoption of CIFRS for SMEs, limited capacity of the MFIs, and COVID-19 impact were the main reasons for the late publication. The CIFRS for SMEs financial statements prepared by non-financial companies were not available for review because there is no legal requirement for those companies to publish their financial statements or file them with authorities. Hence, the findings below should be read with caution as they may not represent a majority of CIFRS for SMEs preparers in Cambodia.

207. **There were some examples of good practice, but the overall quality of financial reporting needs improvement due to likely non-compliance with the CIFRS for SMEs** identified in several areas. None of the audit reports on the financial statements reviewed were

[153] CIFRS 4 applies to insurance contracts issued by companies. It does not generally impose requirements for the other activities of companies that issue such contracts, and companies that do not consider themselves insurance companies may nonetheless issue insurance contracts as defined, and consequently have to apply either CIFRS 4 or CIFRS 17. The companies included in this sample all issue insurance contracts as part of their principal business.
[154] Credit risk is a significant risk for insurance companies, albeit from high quality counterparties. These companies are exposed to risks arising from their investment portfolios, reinsurance exposures, and policyholders.
[155] CIFRS 4, paragraphs 38 to 39A require very specific disclosures of insurance risk, including comparisons between previously estimated amounts and actual outcomes.
[156] CIAS 24 *Related Party Disclosures*, paragraph 17 requires the disclosure of the nature of related party relationships, CIFRS 7 does not specify exceptions to risk reporting for related party transactions.

qualified, which could suggest the attainment of at least the minimum level of compliance with the CIFRS for SMEs, assuming that audits were adequately performed.

CIFRS for SMEs compliance issues

208. **All financial statements reviewed likely did not comply with at least some aspects of the CIFRS for SMEs in some key areas**, even if the non-compliance presented itself in different ways. Areas of likely non-compliance with the CIFRS for SMEs observed in most of the financial statements reviewed that likely detract from users' ability to use that financial information as inputs to inform resource allocation decisions and to hold management to account, include:

- **Financial statement presentation:**[157] Management appeared to have generally considered materiality and, in some cases, presented additional disclosures when the specific requirements were insufficient to achieve a fair presentation.[158] However, questionable classifications and boilerplate disclosures deny the users entity-specific information that the CIFRS for SMEs specifies disclosure of and consequently inhibits external resource providers' abilities to make their own projections of the reporting entity's future cash flows and to assess the stewardship of management.
- **Disclosure of significant judgments made in applying accounting policies and key measurement assumptions:** Some of the entities reviewed appear to disclose insufficient, if any, entity-specific information about key sources of estimation uncertainty,[159] and management's other most significant judgments[160].
- **Disclosure of events after the reporting period:**[161] All companies appropriately identified COVID-19 as an event after the reporting period. However, their disclosures about COVID-19 are boilerplate and insufficient in light of the publicly available information then available about the pandemic.[162] Moreover, other events after the reporting period potentially omitted from the disclosures of the companies reviewed include the EU decision to withdraw substantial tariff waivers from particular Cambodian imports. Consequently, external resource providers are denied the entity-specific decision-useful information that is required about the nature and the effects of material post-balance sheet events.
- **Depreciation/amortization:**[163] Disclosing boilerplate depreciation policies for property, plant, and equipment and intangible assets that are also likely inconsistent with the depreciation principle of reflecting the consumption of an item's service potential and, in isolated cases, seemingly deviating from those policies. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions.

[157] Sections 3-10 of CIFRS for SMEs
[158] paragraph 3.2 of CIFRS for SMEs
[159] paragraph 8.7 of CIFRS for SMEs
[160] paragraph 8.6 of CIFRS for SMEs
[161] Section 32 of CIFRS for SMEs
[162] The financial statements reviewed were authorized for issue on March 25, May 13, and June 30, 2020 respectively.
[163] Sections 16, 17, and 18 of CIFRS for SMEs

- **Income taxes:**[164] Insufficient disclosures about the estimates and other judgments made in recognizing and measuring uncertain tax positions and the recoverability of tax losses deny external resource providers access to entity-specific information relevant to informing their investing and lending decisions.

Compliance with Auditing Standards

209. **None of the audit reports on the 19 sets of financial statements reviewed were qualified, suggesting the attainment of at least a minimum level of compliance with CIFRS and the CIFRS for SMEs**. Nonetheless, the financial statements were in need of improvement. During the review of the financial statements, audit reports were also assessed for anecdotal evidence on the extent to which they complied, in practice, with applicable auditing standards. The same limitations apply in analyzing a relatively small sample of audit reports,[165] and the review comprises only an analysis of the extent to which reports prepared are in compliance with CISA 700[166] and CISA 701[167] and general perceptions drawn from the financial statements themselves.[168]

- **Audit market concentration:** In some reviewed sectors (i.e. insurance and banking)[169] all financial statements in the sample were audited by two 'big 4' audit firms. While this concentration might reflect the choices of the entities involved, it could also suggest an unhealthy concentration of the specific skills required.
- **Compliance with CIFRS and the CIFRS for SMEs:** Based on the review of audit reports, it can be concluded that standards relevant to audit reporting were generally being complied with. However, the issues of compliance with CIFRS referred to above suggest that there may have been issues with compliance with auditing standards by auditors. This is particularly, but not only, the case for:
  - Presentation and disclosure issues, including the significant use of boilerplate language and the omission of entity-specific information about the entity's most significant judgments and estimates and with regard to risk management; and
  - Recognition and measurement, including use (or apparent use) of accounting policies that are inconsistent with the requirements of CIFRS or the CIFRS for SMEs.
- **Audit reports:** On the basis of the review of the external auditor reports on the sample of 19 financial statements reviewed:

[164] Section 29 of CIFRS for SMEs
[165] The review is not akin to a formal audit review and is based only on the evidence included in the financial statements. The reviewer does not examine underlying evidence on the practical application of auditing standards, audit quality, or general challenges facing the audit profession and does not have access to auditors.
[166] CISA 700 Forming an Opinion and Reporting on Financial Statements
[167] CISA 701 Communicating Key Audit Matters in the Independent Auditor's Report
[168] It is worth noting that given the 'standard' format of audit reports, it is reasonably easy for preparers of audit reports to make them appear good simply by conforming to the format, regardless of the entity's underlying financial transactions and position.
[169] Audit concentration was not observed in the samples reviewed for the other sectors, i.e. microfinance and non-financial exchange-listed.

- At least five companies' financial statements documented that the restated prior period financial statements (restated for first time adoption of CIFRS or the CIFRS for SMEs) had not been audited. It appears that this meant that the CIFRS and CIFRS for SMEs transition adjustments were not audited at all, and it is therefore not clear how the auditor confirmed opening balances.
- Key audit matters were not reported regarding the audit of the financial statements of one company with debt listed on the CSX.[170] Deficiencies observed in reported key audit matters included likely omission of some key audit matters (e.g. first-time adoption of CIFRS and at least some of the most significant judgments and key measurement assumptions disclosed in the financial statements[171] that were not identified as key audit matters). Improvements could generally also be made to the overall quality of the key audit matters, for example, increasing their relevance by using fewer boilerplate descriptions and, in particular, by relating the matter more directly to the specific circumstances of the entity.

PERCEPTIONS

210. **Stakeholders acknowledged significant progress but there remained areas for improvement**. The team conducted group discussions with stakeholders, which generally confirmed recent improvements in domestic corporate financial reporting but remaining concerns about public accessibility and the quality of financial statements prepared by entities without public interest. The stakeholders included lenders, financial analysts, audit firms, investors, academia, and the Chamber of Commerce. In addition to the discussion groups, perception surveys were conducted with bankers, MFIs, investors, and the financial analyst association.

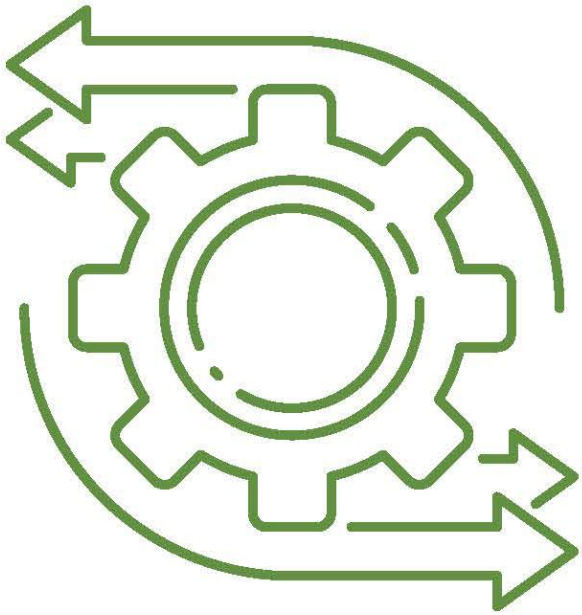
211. **Demand for good quality, publicly available financial statements is high, but accessibility to financial statements is limited**. Stakeholders expressed concern about access to company financial statements. Only listed companies, banks, and MDIs published their full financial statements on their corporate websites. Other entities published very brief financial information without an audit report or did not make publicly available any financial information. Moreover, the publicly available information was typically outdated. Stakeholders seek financial statements for a range of purposes: investment, lending, borrowing, partnership, doing business, research, and study.

212. **Listed company stakeholders place high levels of reliance on financial reporting and auditing**. In addition to company financial statements and audit reports, stakeholders find listed companies' management discussion and analysis informative. The quality of financial statements prepared by listed entities was perceived to be improving gradually. Much less reliance was placed on corporate financial reporting of large non-listed entities, SMEs, and even SOEs. Some stakeholders were skeptical about the quality of the audits of SMEs.

[170] The external audit reports on the financial statements of the other seven companies in the sample with equity or debt listed, or in the process of being listed, on the CSX all included one or more key audit matters.
[171] In accordance with paragraphs 122 and 125 of CIAS 1

213. **Stakeholders recognized the oversight efforts of sectoral supervisors – NBC, SEC, and ISD**. NBC received the highest stakeholder confidence for monitoring the compliance of banks and financial institutions with the financial reporting standards and regulations. Stakeholders also expressed a level of reliance on the oversight work of SEC and ISD on listed companies and insurance companies respectively.

214. **Stakeholders recommended that MEF strengthen the monitoring and enforcement of accounting and auditing of non-public entities including SOEs and SMEs**. Specific recommendations were: (i) enterprises should prepare annual financial statements and submit to an administrative agency for filing and monitoring, even if those financial statements are not available to the public; (ii) statutory audit requirements should be more rigorously enforced; (iii) MEF should raise awareness among CEOs and business owners on the importance of financial reporting disciplines; (iv) corporate governance should be promoted and enforced in all types of entities; (v) MEF should organize capacity building for preparers of financial statements, especially to familiarize MFIs and SMEs with CIFRS and the CIFRS for SMEs and to avoid them asking auditors to prepare financial statements; and (vi) MEF and AQMC should conduct more rigorous quality assurance on audit firms.



III Main changes since the previous ROSC A&A Assessment

III. Main changes since the previous ROSC A&A Assessment

215. **At the time of the first ROSC A&A in 2007, Cambodia had virtually no institutional accounting system**. The ROSC A&A made a series of key recommendations required for the profession to develop: i) revision of the Accounting Law to mandate corporate financial reporting and auditing requirement; ii) adoption of IFRS and development of compliance oversight system; iii) improved IPD, with an accounting degree curriculum focused on IFRS and ISA, and enforced high-quality CPD; and iv) development of audit oversight body.

216. **Since then there have been remarkable developments**. Cambodia has made significant progress in introducing a modernized institutional framework for accounting and auditing by issuing a new law, declaring full adoption of international financial reporting and auditing standards, establishing a quality assurance system for the profession within MEF, and encouraging international cooperation with PAOs. Compliance with the standards in practice, development of the local education curriculum, and effective I&D procedures still require more time and investment to improve step by step.

Statutory Framework

217. **The main recommendation of ROSC A&A 2007 for Cambodia to modernize the statutory framework was to revise its Accounting Law** to mandate: i) application of IFRSs and ISAs for PIEs, including consolidated financial statements of groups; ii) simplified financial reporting requirement for SMEs; iii) audit and filing of entities annual financial statements; iv) formation of ACAR to set auditing standards; v) introduction of an effective mechanism of audit oversight; and vi) establishment of KICPAA with appropriate structure and independence.

218. **The new Law on Accounting and Auditing was signed by His Majesty the King Norodom Sihamony on April 11, 2016**. The Law is very brief, with 39 Articles over 10 pages. It addresses each of the 2007 recommendations in legislative principle, leaving details on standards, obligations, quality assurance, and professional development to be issued as sub-laws.

219. **The Law established ACAR under MEF**, with members from NBC, SERC, other ministries, and consultative members from the private sector, professionals, and associations. Its stated mandate is preparation of accounting and auditing standards and guidelines, profession licensing, profession regulation and law enforcement, conflict resolution, monitoring professional bodies, and representing the country in accounting and auditing.

220. **Under the Law, all enterprises and not-for-profit organizations must prepare annual financial statements within three months after year end**. The criteria for an entity to be audited is proposed by ACAR and approved by MEF. The Law did not specify CIFRS or CISA but gave full authority for issuing sets of standards to ACAR and MEF. The Law requires that practicing individuals and firms are members of KICPAA and that ACAR issues their professional license.

Accounting and Auditing Standards

221. **ROSC A&A 2007 recommended that Cambodia fully adopt IFRS for PIEs and define a simplified financial reporting requirement for SMEs**. In 2009, the Cambodian Accounting Standards Board of the NAC (now ACAR) fully adopted IFRS, as issued by the IASB and without modifications, as CIFRS; and the IFRS for SMEs as CIFRS for SMEs. The MEF approved these standards for application in the jurisdiction through Prakas 68/2009 and Announcement 97/2009. The Prakas state that any and all updates of the standards are automatically adopted. Mandatory application of the standards began in 2019. PIEs such as listed companies, banks, MFIs, and insurance companies as well as large private companies are required to apply CIFRS for the preparation of their financial statements. All SMEs and non-PIEs are permitted to use either the CIFRS for SMEs or CIFRS.

222. **The Cambodian Auditing and Assurance Standards Board of the NAC (now ACAR) adopted all ISA** as CISA and announced that other IAASB pronouncements are to be applied in the country. These standards were approved by the MEF through Prakas 370/2010, which states that all updates of the standards are automatically adopted.

223. **While adoption of standards is considered good, their availability in Khmer language is lagging.** Cambodia is considered as having fully adopted IFRSs and ISAs and partially adopted IESs by IFAC, as published on the IFAC website.[172] However, a lack of published information in Khmer language on the full version of IFRSs and ISAs and the pending approval of the Code of Ethics affects the effectiveness of the actual application of the standards. Khmer language standards and guidance must be made available and ongoing funding should be allocated to ensure the continuous update.

Compliance to standards in practice

224. **Compliance with adopted standards could be improved**. Key ROSC A&A 2007 recommendations to ensure compliance with the adopted standards were: i) ACAR to require, monitor, review, and enforce the submission of annual audited financial statements by entities; ii) strengthened capacity of oversight bodies: KICPAA, ACAR, NBC, and National Audit Authority; and iii) enhanced capacity of small audit firms. While capacity of the oversight bodies has gradually improved, an official mechanism for enterprises (except listed, financial, and insurance sectors) to submit financial statements has not yet been established, and the program to sustainably build capacity for small audit firms has not yet launched. As a result, the compliance rate is not high.

Accounting education and professional development

225. **Cambodia is still in the process of improving its accounting education and professional examinations, with a lot more investment needed from stakeholders.** Key recommendations from ROSC A&A 2007 were: i) improving accounting degree curricula, CPD, the professional examination, and licensing in line with IFRS, ISA, and IES; ii) establishing governance structures within PIEs, and iii) obtaining IFAC membership.

[172] https://www.ifac.org/about-ifac/membership/country/cambodia

226. **There has been progress in establishing a local CPA program, but most IPD programs still need modernization**. The curricula of most universities are not in line with international good practices and there is a lack of modern accounting textbooks in the local language. The National CPA Program has been approved by the Committee and launched in February 2021 after being endorsed by the Minister of Economy and Finance. KICPAA has previously relied on international PAO qualifications for granting its membership.

227. **KICPAA has been an associate member of IFAC since 2008 and continues to work towards full membership**. It has achieved IFAC recognition relating to compliance to accounting and auditing standards but has not yet met the standard in I&D, and only partially achieved the necessary level in quality assurance and code of ethics.

228. **Corporate governance has been adequately addressed in legislation**. The Law on Commercial Enterprises (2016) and the Prakases on Corporate Governance provide detailed guidance. Work is underway to establish a Corporate Governance Code.

Audit oversight

229. **An audit oversight unit has been established and is conducting quality assurance reviews**. ROSC A&A 2007 recommended the establishment of an audit oversight unit within ACAR to conduct regular reviews of PIE auditors and ad hoc investigations into any complaints against the profession, with adequate sanctions and transparent reporting to the public. The AQMC was established in 2017 by Prakas 340/2016 under MEF to conduct quality assurance reviews. It is comprised of representatives from the ACAR, KICPAA, NBC, and other stakeholders. In August 2017, the AQMC conducted a pilot round of in-person visits to five audit firms. The review process continues periodically. AQMC reported its biggest challenge in the establishment and maintenance of a public oversight and quality assurance system in Cambodia is securing a structural budget to ensure experienced quality reviewers can be hired and retained.

Summary

230. A table setting out an overview of recommendations and implementation progress is set out in Annex 2.

IV Key Areas for Consideration

231. This section makes a series of policy and institutional recommendations to help improve the corporate financial reporting framework in Cambodia. Areas for strengthening are grouped into categories:

Regulatory and Institutional Framework

232. **General purpose financial statements and prudential/regulatory reporting should be distinguished more clearly in the regulations**. ACAR is mandated to issue accounting and auditing standards for general purpose financial statements. Those accounting and auditing standards, which are currently in line with IFRS, the IFRS for SMEs, and ISA, are for the preparation and auditing of financial statements for public use. Guidance and requirements on financial reporting issued by sector regulators for regulatory and prudential purposes can be different from the general purposes standards. If variances exist, entities need to prepare both reports and disclose to the public the general-purpose financial statements and the reconciliation of the differences.

233. **A differentiated financial reporting framework should be developed to give simplification and exemption to MSMEs.** CIFRS/CIFRS for SMEs general purpose financial statements should only be required for entities above a defined threshold. A simplified financial reporting framework could be developed following the experience of other countries or based on the Micro Accounting Model developed by the ISCA[173] for micro entities, small entities and some medium sized entities with limited sources of funding and limited public interest. A simplified financial reporting framework usually doesn't include consolidation requirements, specifies significantly fewer disclosures, and is aligned to the tax legislation as much as possible. External audits and publication requirements in respect of small entities will be voluntary but encouraged. Micro entities who pay corporate income taxes based on percentage of revenue should be exempted from annual financial statements and required to submit only tax declarations.

234. **Consideration should be given to rationalizing the audit threshold to avoid an unnecessary burden for MSMEs.** The existing audit exemption threshold, of having at least two of annual turnover below USD 750,000; total assets below USD 500,000; 100 employees or fewer, may place an unnecessary burden on the micro and small enterprises who have insignificant demand for use of audit reports. Furthermore, the audit fees charged for those small audit assignments are often too low to finance a proper audit. As a result, the audit assurance can be diluted. This threshold therefore should be reconsidered so that the scarce accounting and audit resources of the country are prioritized for public interests and the MSMEs are released from an unnecessary burden.

235. **A filing system with legal enforcement should be established for enterprises to submit annual financial statements to authorities**. There is no specific legal requirement for entities other than listed companies, banks and financial institutions, and insurance companies to disclose financial information to the public, even those with public interest. There is also no system for filing or established requirement for the regular submission of

[173] http://www.afa-accountants.org/files/micro_accounting_model_(mam)-2017_final.pdf

their financial statements to government authorities. Financial statements are provided to stakeholders though private channels upon request. With fewer than ten entities listed on the stock exchange, Cambodia's economy relies heavily on non-listed large entities and SMEs. It is very important that the Government can monitor the quality of financial reporting in these significant economic sectors. A legal framework and a filing system for enterprises that are required to prepare general purpose financial statements to submit those financial statements to the relevant authority should be established. Entities that are not required to prepare general purpose financial statements, including micro enterprises who pay corporate tax as a percentage of revenues would be exempt from the requirement. Enterprises with public interest, even if not listed, should be required to publish annual audited financial statements.

236. **A new Code of Corporate Governance should be issued and laws and regulations updated to ensure its effective enforcement for PIEs.** Regulations on corporate governance in Cambodia are currently fragmented in different Prakases issued by various regulators. The new Code should be issued, and the legal framework amended to ensure it is applied consistently, with monitoring of compliance and consequences for non-compliance. International good practices recommend that PIEs, such as banks, financial institutions, insurance companies, and entities having stocks or bonds issued to the public, must prepare and publish an annual self-assessment of their compliance with the Code, normally as part of the annual report. This should include: results of the self-assessment against the implementation regulation; share ownership details; frequency of board meetings; number of internal fraud cases and how the entity handled them; number of legal claims and the entity's settlement efforts; transactions with a conflict of interest; buy back of shares and/or bonds; and provision of funds for social activities and political activities with details of the nominal value and recipients. The Code of Corporate Governance should not require or encourage any different financial reporting or audit practices.

237. **Regulations should explicitly provide I&D procedures to ensure enforcement of financial reporting and auditing requirements.** Prakas and sector regulations authorize NBC, SERC, and ISD to review entities' annual financial statements including auditor reports. The regulations also provide for circumstances where regulators can approach the entities and auditors to conduct further investigations on exceptions found. The regulations do not, however, contain detailed sanctions and enforcement procedures for non-compliance with financial reporting and auditing standards. AQMC findings from on-site and off-site quality assurance with audit firms also lack a legal basis to ensure enforcement. Findings and recommendations should be enforced by specific provisions in relevant laws and regulations to improve the quality of financial reporting and auditing and protect the public interest.

238. **Systematic collaboration between sector regulators and external auditors should be established.** Under the current legal framework, regulators are authorized to contact auditors and request clarification in exceptional cases but there are no requirements for periodic meetings or intervention in audit planning. Prakas B7.017.335/2017 requires

entities to submit audit terms of reference to NBC annually, but this does not apply to listed companies or the insurance sector. International good practices recommend that regulators should establish a system of collaboration with auditors. Such collaboration can vary from regular exchanges of information and meetings to requiring auditors to perform additional scope work for regulatory purposes. Collaboration should be mandated in regulations and set out in terms of reference with appropriate outcomes and follow up actions.

239. **Audit firm rotation requirements should be reassessed, to lengthen the period of audit firm engagement and introduce rotation of audit partners.** Current regulations require rotation of audit firms every three years for listed companies, banks, and financial institutions. A cooling-off period of three years is required for listed companies and two years for the financial sector. Although there is no specific legal requirement for insurance companies, in practice this sector follows a similar rotation practice. Regulations do not include any seperate requirements on rotation of individual audit partners[174]. This too short period of firm rotation necessitates a steep learning curve each three years which could increase the incidence of undetected errors and raise costs. Good practices should have rotation of both audit engagement partners and firms, with a longer period applied for the firms.

240. **Prakases on adoption of international standards should be updated to clarify the names, languages, and the applicable entities.** The Prakases on adoption of IFRS, the IFRS for SMEs, and ISAs were issued more than ten years ago and there have been many developments in the economy and accounting profession since then. The adoption of international standards but renaming them “CIFRS”, “CIFRS for SMEs”, “CISA” may cause some external confusion. Although providing for automatic adoption of any subsequent updates issued by the international standard boards, the Prakases do not specify which language – English or Khmer should prevail. This practice may lead to potential legal conflicts where non-updated Khmer versions of the standards result in material discrepancies of reporting or auditing. Classification of enterprises to adopt CIFRS or CIFRS for SMEs is also not clearly defined in the current Prakases, with the requirement for “large and medium enterprises” to adopt IFRS. The Prakases therefore need to be updated, using the original international standard in the adoption statement, stating which language version should prevail, and providing clear boundaries for each type of enterprise to adopt IFRS, the IFRS for SMEs, or a further simplified accounting framework.

241. **Transparency reports should be required at least annually from audit firms that audit the financial statements of PIEs**. There is currently no legislative requirement for audit firms of PIEs to prepare an annual transparency report. Good practices recommend audit firms that carry out statutory audits of PIEs to make public an annual transparency report, at the latest four months after the end of financial year, which should remain available on the audit firm’s website for at least five years from the day of its publication.

[174] The Law on Accounting and Auditing (2016) defines an auditor as a ‘natural person and legal entity who provide the auditing service and is member of the professional body of accounting and audit’.

242. **Sustainability reporting should be introduced to meet the increasing demand from investors and institutions for insights into the sustainability effects of new and existing projects and activities.** Internationally, the development and quality of sustainability reporting is becoming the preemptive area of focus for both PIEs and governments. Adopting or establishing a framework for sustainability reporting in Cambodia as a new early objective will allow stakeholders to become familiar with the requirements of sustainability reporting, and where appropriate to amend behavior before this becomes a generally accepted reporting requirement.

Monitoring and Enforcement of Financial Reporting

243. **Regulators' monitoring of general purpose annual financial statements should include reviewing them against applicable financial reporting standards**. The non-compliance with CIFRS of some 2019 financial statements, as identified in Section II.C, suggests that regulators should be performing a more detailed review of CIFRS financial statements submitted/published by entities. This review could be by sector regulators (NBC, SERC, ISD) or centralized at ACAR within the new NBFA. Ensuring financial statements' full compliance with recognized accounting standards, including adequacy of disclosures and information, is a critical role for regulators to safeguard the public interest and enhance entities' transparency. International good practices include publication by regulators of the results of such reviews and the availability of regulatory actions for non-compliance. Regulators' findings could also trigger actions by AQMC related to the quality of audits.

Audit Oversight and Quality Assurance

244. **AQMC needs strengthening, both to increase its available resources and to establish legal enforcement of its findings.** With its current limited budget and low staffing levels, AQMC only has resources to perform quality assurance on auditors of PIEs every three years and on other auditors every six years. Most of the review team are not permanent staff but are hired in, including practitioners which could result in independence issues. When issues are identified, and even if the firms are classified as having "failed" the review, there are no effective disciplinary actions. To improve this important quality control on the audit profession, AQMC needs a sustainable financing mechanism that will ensure adequate resources to fulfill its functions. Options include securing a recurring allocation from the government budget and exploring contributions from stakeholders. AQMC findings also need to be legally enforced.

Accountancy profession

245. **KICPAA should work towards full membership of IFAC** by finalizing the new Code of Ethics and activating I&D and quality assurance arrangements. KICPAA has submitted a new Code of Ethics to the ACAR to be aligned with the 2016 IESBA Handbook on International Code of Ethics for Professional Accountants. The proposed Code is still pendingACAR approval and needs also to take into account the updates of the 2018 IESBA Handbook. Neither the ACAR's Audit Oversight Board, responsible for conducting inquiries arising from quality assurance inspections, nor KICPAA's Investigation and Discipline Commission, responsible

for I&D functions, have yet been active due to lack of resources. ACAR, AQMC, and KICPAA need to cooperate and ensure the effectiveness of those functions so that Cambodia can comply with all requirements to become a full member of IFAC.

246. **Upon achieving full IFAC membership, Cambodia should establish MRAs with other countries to recognize professional qualifications**. The MRAs will allow professional accountants to practice in these countries without going through the process of re-accredited. The practice will help to reduce costs, increase efficiency and competitiveness, and add more value to Cambodia's qualifications.

247. **Licensed auditors should be legally required to have professional indemnity insurance**. Legislation does not require the auditor or audit firm to have professional indemnity insurance nor to agree a liability cap with the client and record it in the engagement letter. While audit firms that are part of international networks follow the network policy to buy insurance, smaller local audit firms have no pressure or incentive to do so. This leaves uncovered risks with audit firms and their clients, and hence to the economy generally in case of audit default. Legal enforcement of professional indemnity insurance will address this.

Accounting Education

248. **The National Education Board should issue a national professional competency framework for accountants.** The competency framework should clearly identify and describe the requisite professional competencies and specify proficiency levels and knowledge topics for each competence area that must be demonstrated for a candidate to be certified as a professional accountant. In addition to technical competence, professional skills are required to demonstrate competence as a professional accountant. These include intellectual, interpersonal and personal, communication, and organizational skills. IT knowledge is also essential in the modern accounting world. In addition to the competency framework, detailed competency maps can document the links between the competency framework and the formal education and practical experience programs that are designed to develop the competence of aspiring professional accountants. The competency framework and competency maps will provide a breakdown of the competencies and skills which are to be acquired at different levels including university education, professional education, practical experience, and CPD. Competence requirements should be distinguished among different categories: private sector accountants, public sector accountants, external auditors, internal auditors, and board and audit committee members.

249. **A professional development program should be designed and organized by universities and KICPAA**. Once the gaps in the current programs have been determined, the proposed steps to be followed are: (i) establish the scope of program elements to be redesigned; (ii) design new elements and map competencies; and (iii) develop new program elements and update mappings. This should apply for both accounting undergraduates and qualified accountants. KICPAA should play a leading role in the professional qualification and

continuing development of professional accountants and auditors. The universities should design new program elements for their bachelor's qualification including curricula, teaching, and examinations, mapped to the competency framework.

250. **Universities need to improve teaching resources and teaching methods, including real world learning opportunities.** Textbooks, digital platforms, and accounting and auditing software for teaching is also important to deliver the competency framework. Teachers should be equipped with the skills and competencies to develop their own teaching materials and resources including lesson notes, assignments, examinations, and case studies in the field of accounting and auditing. This is even more important in the context of the absence of local language textbooks. Pedagogical skills must be upgraded to address professional judgment, ethics, communications, and strategy. University education should include internships, greater involvement of employers in setting the curriculum, and part time teaching by practitioners.

251. **The National Education Board should establish the criteria for graduates of accounting and auditing degrees to achieve credits towards their professional accreditation.** Once a competency framework for accounting and auditing degrees has been developed and adopted, the National Education Board should issue criteria for MOEYS and KICPAA to accredit the university programs. This will provide incentives for universities to invest and improve their training quality, as well as protect learners' interests.

252. **Consideration should be given to creating and launching an Accounting Technician Qualification**. This could create additional capacity at the technician level and in so doing could relieve some of resource constraints on the existing skill base. A number of accounting professional bodies across the world have developed and implemented similar programs successfully, some in conjunction with regional bodies or development agencies. KICPAA and regulators could consider whether and how they recognize and support this and those that receive the qualification.

Annex 1: Relevant legislation

Laws	Date
Law on Organization and Conduct of National Bank of Cambodia	1996
Law on Banking and Financial Institutions	1999
Law on Commercial Enterprises	2005
Law on Issuance and Trading of Non-Government Securities	2007
Law on Insurance	2014
Law on Accounting and Auditing	2016
Law on The Establishment and Functioning of Non-Banking Authority	2021

Sub-law documents	Date	Referred to as
Prakas on Adoption and Implementation of Chart of Accounts for Banking and Financial Institutions, No. B7-02-218, NBC	December 25, 2002	Prakas B7-02-218/2002
Prakas on Annual Audit of Financial Statements of Banks and Financial Institutions, No. B7-04-204, NBC	December 29, 2004	Prakas B7-04-204/2004
Prakas on Reporting Date for Commercial Banks and Specialized Banks, No. B7-06-211	September 13, 2006,	Prakas B7-06-211/2006
Prakas on Corporate Governance of Insurance, No. 185, MEF	March 20, 2007	Prakas 185/2007
Prakas on Submission Obligation of Audited Financial Statements, No. 643, MEF	July 26, 2007	Prakas 643/2007
Prakas on Accounting Guidelines for General Insurance Business, No. 549, MEF	July 30, 2008	Prakas 549/2008
Prakas on Life Insurance Business No. 608, MEF	August 12, 2008	Prakas 608/2008
Prakas on Governance in Banks and Financial Institutions, No. B7-08-211, NBC	November 25, 2008	Prakas B7-08-211 2008
Prakas on Fit and Proper Regulatory Requirements for Applying Entities and Licensed Banks and Financial Institutions No. B7-08-212, NBC	November 25, 2008	Prakas B7-08-212/2008
Prakas on Adoption of Cambodian Financial Reporting Standards, No. 68, MEF	January 8, 2009	Prakas 68/2009
Announcement on Adoption of Cambodian International Financial Report Standard (CIFRS) and Cambodian International Financial Report Standard for Small and Medium Enterprises (CIFRS for SMEs) Adoption of IFRS, No. 97, MF-NAC	August 28, 2009	Announcement 97/2009
Prakas on Corporate Governance of Listed Companies, No. 002, SERC	December 31, 2009	Prakas 2/2009
Prakas on Application of International Auditing and Assurance Standards of Cambodia, No. 370, MEF	May 18, 2010	Prakas 370/2010

Sub-law documents	Date	Referred to as
Prakas on Publishing of Annual Financial Statements for General Insurance Business, No. 619, MEF	September 3, 2010	Prakas 619/2010
Prakas on Internal Control of Banks and Financial Institutions, No. B7-010-172, NBC	September 28, 2010	Prakas B7-010-172/2010
Prakas on Corporate Governance for the Listed Public Enterprises, No. 013, SERC	December 15, 2010	Prakas 13/2010
Prakas on Establishment of the Audit Quality Monitoring Committee, No. 340, MEF	April 4, 2016	Prakas 340/2016
Prakas on Accreditation of Professional Accounting Firms Providing Professional Services in the Securities Sectors, No. 002/17, KMK BRK	9 January 2017	Prakas 02/2017
Prakas on External Audit of Banking and Financial Institutions, No. B7.017.335, NBC	November 14, 2017	Prakas B7.017.335/2017
Prakas on Organization and Functions of National Accounting Council, No. 953	March 26, 2018	Prakas 953/2018
Prakas on Corporate Disclosure, No. 007/18, SERC	October 30, 2018	Prakas 7/2018
Prakas on Corporate Governance of Listed Companies, No. 011, SERC	December 19, 2018	Prakas 11/2018
Sub-Decree 113 ANKr.BK on Establishment, Organization, and Function of Institution of Accounting and Auditing Profession (KICPAA)	2019	Sub-Decree 113/2019
Sub-Decree on Provisional Fines for the Violation of the Law on Accounting and Auditing No. 79	June 1, 2020	Sub-Decree 79/2020
Prakas on Obligation to Submit Financial Statements for Independent Audit, No. 563, MEF	July 10, 2020	Prakas 563/2020
Prakas on Classification of Self-Assessed Regime Taxpayers, No. 009 SHV.PrK	January 12, 2021	Prakas 09/2021

Annex 2: ROSC A&A 2007

Progress on ROSC A&A 2007 Recommendations

Statutory Framework	
Recommendation	Revise Accounting Law to mandate: i) application of IFRSs and ISAs for the PIEs, including consolidated financial statements of groups; ii) simplified financial reporting requirement for SMEs; iii) audit and filing of entities annual financial statements; iv) ACAR to set auditing standards; v) effective mechanism of audit oversight; and vi) appropriate structure and independence of Cambodia PAO (KICPAA).
Status of implementation as of March 2021	**Addressed** The new Law on Accounting and Auditing was signed by HM the King Norodom Sihamony on April 11, 2016, including all recommendations in principle. ACAR was established under MEF, with members from NBC, SERC, other ministries, and consultative members from the private sector, profession, and associations, with the mandate of preparing accounting and auditing standards and guidelines, profession licensing, profession regulation and law enforcement, conflict resolution, monitoring the professional bodies, and representing the country in accounting and auditing. Under the Law, all enterprises and not-for-profit organizations must prepare annual financial statements within three months after year end. Criteria for an entity to be audited is proposed by ACAR and approved by MEF. The Law did not name IFRS and ISA but gave the full authority of issuing sets of standards to ACAR and MEF. Although the Law requires that any person or entity must be a member of a professional body, it still gives the profession licensing authority to ACAR. This Law is very brief but contains the legislative principles to govern the profession, leaving it to MEF and ACAR to issue secondary legislation on all details of standards, obligations, quality assurance, and professional development.

Accounting and auditing standards

Progress on ROSC A&A 2007 Recommendations

Recommendation	Fully adopt IFRS for PIEs and define a simplified financial reporting requirement for SMEs. Fully adopt ISA for auditing services.
Status of implementation as of March 2021	**Addressed** In 2012, the Cambodian Accounting Standards Board of the ACAR fully adopted IFRS as issued by the IASB and without modifications as CIFRS and the IFRS for SMEs as CIFRS for SMEs. The MEF approved these standards for application in the jurisdiction through Prakas, stating that any and all updates of the standards are automatically adopted. PIEs such as listed companies, banks, MFIs, and insurance companies, as well as large private companies, are required to apply CIFRS during the preparation of their financial statements. All SMEs and non-PIEs are permitted to use the CIFRS for SMEs or CIFRS. The Cambodian Auditing and Assurance Standards Board of the ACAR adopted all ISA as CISA and other IAASB pronouncements to be applied in the country. These standards were approved by the MEF through Prakas stating that all updates of the standards are automatically adopted. Cambodia is considered to have fully adopted IFRS and ISA and partially adopted IES by IFAC, as published on the IFAC website.

Recommendation	Khmer language standards and guidance must be made available and a recurrent budget should be allocated to ensure their continuous updating.
Status of implementation as of March 2021	**Partially addressed** IFRS has been translated by the Government into Khmer language but not yet officially published. There is a lack of published information on IFRS, the IFRS for SMEs, and ISA and accompanying guidance in Khmer language. There is no allocated budget for continuous updates of the Khmer version.

Compliance with standards in practices

Recommendation	Augment ACAR powers and capacity for enforcing accounting standards and financial reporting requirements through legislation.

Progress on ROSC A&A 2007 Recommendations

	The ACAR should: i) require submission of audited financial statements by PIEs and all other companies that are subject to annual statutory audit; ii) set up a review panel with an adequate number of technically qualified people to review financial statements, undertake on-site inspections, and impose legal and administrative sanctions for noncompliance; and iii) report annually on enforcement actions reviewed, issues addressed, and sanctions taken.
Status of implementation as of March 2021	**Not yet addressed** The legal framework for ACAR to receive, review, enforce, and report on enterprises' compliance with financial reporting and auditing standards is still not established or implemented.
Recommendation	Improve the capacity of ACAR, NBC, and ISD through recruiting technically qualified people and practical training on implementation of IFRS, ISA, and IFAC requirements.
Status of implementation as of March 2021	**Partially addressed** ACAR, NBC, and ISD have been equipped with qualified personnel who have good knowledge and experience of IFRS and ISA. Special divisions have been established to monitor the entities' financial reporting. The resource however needs strengthening in terms of number of staff and authorization by legal framework and mandates in financial reporting monitoring and enforcement.
Recommendation	Strengthen KICPAA through twining arrangements and regional integration initiatives within ASEAN region.
Status of implementation as of March 2021	**Not yet addressed** KICPAA has signed a Joint Examination Scheme Agreement with ACCA and received technical assistance from ICAEW and donors. However, twinning arrangements with other professional bodies in the region have not yet been established.

Progress on ROSC A&A 2007 Recommendations

Recommendation	Develop initiatives to build the capacity of small audit firms with a focus on audit quality control and assurance arrangements.
Status of implementation as of March 2021	**Not yet addressed** Small audit firms still lack support in terms of audit methodology, internal quality assurance, and personnel.
Accounting Education	
Recommendation	Improve accounting degree curricula and delivery of teaching, focusing on practical implementation aspects of IFRS and ISA, corporate finance, ethics, and business management for accountancy and auditing careers.
Status of implementation as of March 2021	**Partially addressed** Some universities have made efforts to modernize curricula and purchase international textbooks. There is not yet a national qualification framework nor standard curriculum for the Bachelor's in Accounting. The current national framework sets only minimum requirements for bachelor, master, and doctorate qualifications generally. KICPAA is working on developing a national professional qualification under the authority of the National Education Board. The proposed national professional qualification will be based on ACCA's Fundamentals Level Program and will be complemented by locally developed taxation and law modules.
Recommendation	Deliver high-quality training programs for CPD for accountants and auditors, particularly in relation to IFRS, ISA, and IAS practical implementation guidance. Develop monitoring systems for enforcing CPD requirements.
Status of implementation as of March 2021	**Partially addressed** KICPAA's CPD requires completion of 120 hours of learning activities over a rolling three year period. Every year, members must attend 16 hours of planned CPD activities organized by KICPAA. The remaining balance can be achieved through a variety of activities which include personal study, reading or writing articles, in-house training at the member's place of employment, training provided by professional training centers, and other forms of training recognized

Progress on ROSC A&A 2007 Recommendations

	by KICPAA. The quality of CPD and the monitoring and enforcement system needs strengthening.

Audit oversight	
Recommendation	Establish an audit oversight unit within the ACAR to conduct practice reviews of auditors of PIEs at regular intervals, investigate valid complaints against auditors and audit firms and irregularities from review of financial statements and audit practices, impose appropriate sanctions on relevant parties to ensure compliance with auditing requirements, institute a system for providing advice/help to support better compliance with auditing requirements, and report the activities of the unit to the public.
Status of implementation as of March 2021	**Partially addressed** In 2017, AQMC was established under MEF to conduct quality assurance reviews. AQMC is comprised of representatives from ACAR, NBC, KICPAA, and other stakeholders. Since its first onsite inspection in August 2017, AQMC has conducted several rounds of visits to audit firms. AQMC reported its biggest challenge in the establishment and maintenance of a public oversight and quality assurance system in Cambodia is securing ongoing funding that allows it to recruit and retain experienced quality reviewers.

Accounting profession	
Recommendation	Develop a professional examination for the Cambodian accounting profession and link it with regional professional bodies.
Status of implementation as of March 2021	**Addressed** The Cambodia CPA Program launched on February 10, 2021 together with its training and examination materials. This program is governed by a National Committee for Cambodia CPA, led by the Secretary of State of MEF and the Chair of the ACAR and has representatives from KICPAA, SERC, Ministry of Labor and Vocational Trainings, NBC, MOEYS, and Cambodia Higher Education Associations. There are two sub-committees; on examination and on

Progress on ROSC A&A 2007 Recommendations

	accreditation. KICPAA received technical assistance from ICAEW to develop IES compliant training materials and exam question bank.
Recommendation	Issue guidance on the practical application of IFRS and ISA and implementation of the IFAC Code of Ethics.
Status of implementation as of March 2021	**Not yet addressed** Prakas were issued to officially adopt IFRS, the IFRS for SMEs, and ISA but no implementation guidance was issued. Adoption of the international standards is based on guidance of IASB and IFAC.
Recommendation	Establish governance structures within PIEs.
Status of implementation as of March 2021	**Addressed** Corporate governance for listed companies is currently regulated in the Law on Commercial Enterprises (2005), Prakas on Corporate Governance for Listed Public Enterprises, Prakas on Corporate Governance for Listed Companies, and Prakas on Corporate Disclosure. The Law and Prakases do not require or encourage any departures from financial reporting or auditing standard requirements. Cambodia is working on a Code of Corporate Governance with IFC technical assistance.
Recommendation	Become a full member of IFAC.
Status of implementation as of March 2021	**Partially addressed** KICPAA has been an associate member of IFAC since 2008. It has met IFAC requirements on compliance with IFRS, IPSAS, ISA, and IES. To achieve full membership, further work is required on quality assurance, I&D, and code of ethics.