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# The Future of Public Financial Management in Cambodia: Automation

## Significance

Cambodia has made great progress in developing the foundations for an effective state after decades of conflict. However, a host of issues currently constrains the Government's ability to deliver core public programs and services based on stated government priorities and, importantly, its ability to demonstrate the effectiveness of these programs and services at the most reasonable cost. While spending on health and education has increased, it is difficult for government, citizens and development partners to understand and track how this money is being spent. For instance, when the Government purchases school books, hires teachers, builds roads or provides more budget resources for agriculture extension programs, it is unable to demonstrate exactly what is being bought, or exactly how much money is being spent on these activities because self-generated revenues and related (off-budget) expenditures and third-party transactions are not recorded in the Government's accounts. Also, the Government sometimes delays making payments because cash is not immediately available due to: the way in which the cash is managed; the way revenues and expenditures are recorded and accounted for; or because the 'real time' financial data (accurate reports on revenues and expenditures) are not immediately available.

The Government is turning to an automated financial management system to address many of these issues. But implementing such a system requires a complete overhaul of business processes, the development and enforcement of new policies and rules, and the implementation of a change-management process. This note examines the automated system in question and looks at the business and management changes that will need to be implemented if the new system is to succeed.

## Background

In order to address some of the constraints mentioned above, the Government plans to purchase an automated financial management information system (FMIS). This will be installed at the Ministry of Economy and Finance (MEF) departments, the General Department of the National Treasury (GDNT), and all 24 provincial treasuries. The system will streamline and automate payments, revenue collection and receipts, and accounting and reporting of the central and provincial treasuries. Spending ministries at the center, and spending departments in the provinces, will submit—using a web-based portal where possible—their payment requests and revenue receipts to the central treasury, or the corresponding provincial treasuries, for processing. The web-based portal will provide ministries and departments with easier and more timely access to financial information, from which they can generate financial and management reports. Once operational at the provincial treasuries, the system will provide better

program and financial information to program managers, enabling them to redirect or allocate resources more effectively, efficiently and transparently; and to facilitate the timely receipt of funds by, for example, provincial and district education offices, as well as by clinics and hospitals. Overall, the FMIS will generate immediate benefits and serve as a tool for improving the way the Government monitors, adjusts, and reports on its budget each year.

## FMIS & Public Financial Management Reform

The installation of the FMIS is a part of the Government's ongoing Public Financial Management Reform Program (PFMRP) that was adopted in 2004. The PFMRP, led by the MEF, is a four-stage plan of action for reforming the public finances, involving:

- 1 enhancing the reliability and predictability of the budget;
- 2 increasing the financial accountability of program managers, and improving internal controls;

- 3 improving the linkages of priorities and service targets to budget planning and implementation; and
- 4 increasing accountability for results (budget managers become fully accountable for their programs' performance).

Currently, the Royal Government of Cambodia (RGC) is implementing Stage 2 of the PFMRP in which the FMIS provides the backbone for core functions of increased financial accountability, improved internal controls and greater transparency across government.

The ability of the RGC to determine how money is being spent, to coordinate the spending in a particular sector such as health or education, or to monitor whether officials are following requirements in how they spend the money is compromised because the RGC has an incomplete picture of all revenues received and expenditures made

## What does a Financial Management Information System (FMIS) do?

The FMIS computerizes the financial operations of budget and treasury units and is usually built around a core treasury system that supports key budget execution functions. Budget execution refers to the monitoring, adjusting and reporting on the current year's budget. The system:

- Improves the accuracy of budget transactions, i.e., the recording and processing of **payments** (spending on employee salaries, goods, services, and programs) and **receipts** (revenue received from taxes, grants, or in exchange for sale of government assets or services provided) and **reporting** (financial and management across organizational units and budget entities);
- Increases the efficiency and transparency of spending by making direct payments to vendors, thereby reducing uncertainty surrounding payments;
- Enables greater control of aggregate spending and deficits, and allows the prioritization of expenditures across policies, programs and projects;
- Supports decentralized operations through centralized web-based solutions providing access to authorized budget users at all levels (provinces, districts).

on behalf of the Government. The FMIS system and its implementation overtime will enhance the Government's ability to capture all revenues and expenditures made to include third-party transactions. Third-party transactions are those transactions in which the Government receives goods and/or services paid directly by donors or third-parties to vendors/suppliers. While the FMIS system does not ensure that money will be spent well, or that Cambodia's economic growth and social well-being will improve, it is an important step in having government policies and decisions implemented.

## Chart of Accounts

The RGC has put in place a number of key changes and improvements to ensure that the automated system can operate as intended. One of the important first steps has been the creation of a unified chart of accounts (COA) which, irrespective of the introduction of the FMIS, will allow better monitoring and use of public expenditures. This is the created list used by government that identifies each item for which money or the equivalent is spent or received—for use by all levels of government. The new COA consolidates the separate charts of accounts used by the central, provincial, district, and commune levels of government, and is based on a set of internationally recognized accounting standards known as the International Public Sector Accounting Standards (IPSAS). The aims of IPSAS are to help standardize diverse accounting policies, facilitate presentation of transparent and comparable information, and minimize subjectivity in financial statements. IPSAS are global financial reporting standards for governments. The adoption of IPSAS accounting and reporting standards by the RGC in 2012 represents its commitment to improve the consistency, quality and transparency of its accounting and reporting policies and standards.

## Budget Classification

Improvements also have been made in the way the Government classifies and presents the budget. This will have a direct impact on the transparency and coherence of the budget by providing a framework for both policy decision-making and accountability. Classifying expenditures and revenues correctly is important for (i) policy formulation and performance analysis, (ii) distributing resources among various sectors, (iii) ensuring compliance with budget resources approved by parliament; and (iv) the day-to-day management of the budget.

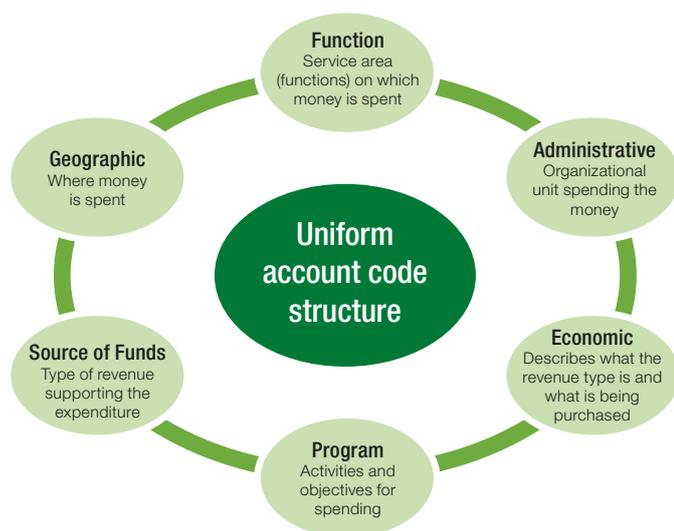
## The new budget classification encourages the use of government public financial systems

Donor support in health and education (and other fields) remains high, representing about one-third of general government outlays. The new budget classification (and chart of accounts), referred to as the Integrated Uniform Account Code Structure, will enable budget integration and encourage the use of the Government's public financial system and increase direct budget support, as donors will have a better understanding of how funds are being accounted for and where expenditures take place.

This is made possible by "source of funds" and "geographic" classification coding. The "source of funds" classification supports the integration of externally financed projects into the budget and fiscal reporting, and captures the Government's own-source and external (donor-financed) revenues. The "geographic" classification identifies locations of incurred expenditures, distinguishing between central, provincial, municipal, district, and commune levels of administration.

### Uniform Account Code

The FMIS will facilitate the introduction of an Integrated Uniform Account Code Structure. A new six-segment classification system proposed by the MEF integrates the budget and accounting functions into a uniform single structure. The new coding structure will organize budget transactions, both expenses and revenues, into the six segments shown below. Each provides a different aspect of the expense and revenue, and together they provide the overall framework, reflecting the needs of all the users of public financial data, ranging from parliament, the National Audit Authority, ministries and sub-national governments to citizens and development agencies.



### Budget Entities

The 'budget entity' is a key concept for introducing greater financial and programmatic accountability at all levels of government. A budget entity is an organization (i.e., a hospital or a school) that uses or receives public resources

to accomplish a function for which the Government is responsible. Autonomous public organizations and sub-national governments can be considered initially as budget entities or cost centers. The MEF has finalized the guidelines for identifying budget entities and disseminated these to all ministries and organizations.

### Bank Accounts

Important progress has been made in consolidating government bank accounts, strengthening the Treasury Single Account (TSA), and expanding the use of commercial banks for government transactions in the provinces. Establishing the TSA means that the Government has an official account, or set of linked bank accounts, through which all government receipts and payments are channelled. These changes, along with the recent relocation of the Cash Management Unit to the General Department of the National Treasury (GDNT), have helped to improve cash management, thereby ensuring greater predictability, reliability and availability of financial resources.

### Business Processes

Moving from manual and fragmented systems to a highly automated and integrated system requires a complete business process review supported by robust change-management measures which are currently in progress. Once computerized, the new business processes that accompany the system will automate workflows, eliminate duplication, superfluous layers and steps, and reduce the need for the proliferation of different letters and forms. The FMIS will serve as the single, integrated central repository of information, and source for budgetary control. The system will give managers consolidated, and more reliable and timely information. Once transactions are entered into the system, reports can be generated. The FMIS will provide

opportunities for improving the way government transactions are submitted, reviewed, approved and processed. These improvements can only be realized if appropriate business processes are fed into the FMIS. Electronic notification to managers will replace management involvement in transactions, and reduce the number of approvals needed, facilitating more timely approvals, payments, and transfers of funds.

Once the initial FMIS system is successfully in place in the MEF, GDNT and treasuries in all provinces throughout Cambodia, the Government plans to extend the system to all ministries and government projects; deepen the functionality of its system to improve its budget planning, formulation,

and procurement processes; and improve the management of public assets and inventories.

## Conclusions

Over the past decade, great efforts have been made to improve the way in which public money is spent, from ensuring that it all goes through the same account, to ensuring the amount of money budgeted for an agency is actually provided to that agency. The FMIS builds upon these efforts and will enable even better management of public money. This represents another important step towards the Government meeting the needs of the country.

## Recommendations

The FMIS represents both a technical challenge and a fundamental transformation of the ways in which financial decisions are made and resources are controlled and managed. Given that the choices to be made around authority, accountability, responsibility, and technology will determine the Government's overall financial management and service provision structures for many years to come, clarity in policy on a number of technical and non-technical issues will facilitate a successful FMIS implementation.

The most crucial recommendations to the RGC are:

- The “to be” business processes that will be embedded in the FMIS will need to be sufficiently robust to ensure that the RGC obtains the necessary gains in efficiency. These gains not only justify the cost of putting an automated system in place, but also allow the Government to realize the program and service delivery benefits that automating these financial processes should bring. These processes should be fairly well advanced by the time the FMIS contract is awarded.
- The MEF has developed a comprehensive strategy to manage employee resistance to the new system, and to build the capacity for change within the MEF, the ministries and the provincial treasuries. However, even greater efforts by senior management will be needed to ensure that the plan is communicated and implemented as a matter of urgency.
- During the first year of implementation of the system, it is vital that the COA and budget classification structure used for budget preparation is also used for budget execution. If this is not done, then the budget execution system (the FMIS) will not be able to give “actual” data according to the new COA.

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