

AUDIT REPORT
ON PUBLIC FINANCIAL MANAGEMENT

Fiscal Year 2006

Preface

Cambodia has enjoyed peace and macroeconomic stability owing to the Royal Government of Cambodia (RGC) efforts to reconciliation and reforms on all scopes especially the reform on public finance and administration reform to achieve good governance policy, development with long time, impartiality and poverty reduction.

The National Audit Authority (NAA) is the supreme audit institution which is independent in its operation and was established in March 2000. The establishment of this SAI expresses the RGC's, the Parliament's and the Senate's dedicated commitments in the intention to implement the examination, assessment and to regularly report about the achievement and raise up the recommendations for improvement of ministries-institutions and also the relevant institutions to the Parliament, the Senate and the RGC as the information to enhance good governance and development.

All the results that come from efforts of the auditors, has contributed to NAA's development and has the possibility to publish the Audit Report in accordance with the Audit Law of the Kingdom of Cambodia and the citizens' wish. This report includes the results and the assessment on public financial management, internal control system of ministries-institutions, provincial-municipal administration, local authority , audit on the draft law on budget settlement 2006 and giving recommendations for improvement.

On behalf of NAA, I fully thank the RGC, Parliament and Senate who always support the NAA's operations in terms of legal structure, funds, materials and encouragement. Moreover, I am very grateful to the German Technical Cooperation (GTZ), the Asian Development Bank (ADB), the World Bank (WB), Denmark International Development Agency (DANIDA) and also other supreme audit institutions (SAIs) for its support to the NAA's operation and development and also thank the auditors of NAA who work hard to accomplish the task to our country.

Phnom Penh, 22 October 2009

Auditor General

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Audit Report
on
Public Financial Management
for Fiscal year 2006

I. Summary

In accordance with Article 2, 3, 29 and 37 of the Audit Law of Kingdom of Cambodia promulgated by Royal Kram No. CS/RKM/0300/10 dated on 03 March 2000, NAA has the duty to audit and publish the necessary audit finding. In 2006, NAA audited on some ministries-institutions, provincial-municipal administrations, local authorities and public enterprises; especially, audited on the draft law on budget settlement 2006 which has the summary as follow:

Macroeconomic situation was stable which economic increasing achieved 10.8% higher than the plan which was 6.1%. This result came from the accurate implementation of the policy of the government that fixes in the 2nd National Strategic Development Plan, Poverty Alleviation Strategy; especially the implementation of the Rectangle Strategy and reform programme on wide sectors such as implementation of public financial management reform programme, private development....

Revenue implementation achieved to 3,397,010 million riel equal to 115% of the annual plan in the amount to 2,956,325 million riel. At the same time, if based on the potential of the collected revenue is still limited such as prosecuting and repressing the smuggling along the borders were not sufficiently conducted, some imported documents could not verify the realistic of goods, some customs warehouses in Poy Pet were not clearly controlled or supervised by customs and tax administrators, lack of good cooperation between Department of Tax and Department of Customs and Excise in controlling on using Value Added Tax (VAT) identification, control on the tax declaration of companies-enterprises was not on time, insufficient registering small enterprises in the tax inventory, inaccurate collection of the royal seal tax on goods or service supply to state institutions, not defining the rental of the granted land for long term, keeping lots of requested repayment debt.

Expenditure implementation through National Treasury achieved to 2,813,046 million riel equal to 95% of the plan in the amount to 2,956,325 million riel. In conducting the expenditure, there were some noticeable points such as paying the contractors before the date in the contract that led the contract implementation was not complete, sending the payment mandates forcefully at the end of the year and after the deadline of closing the inventory led to obstruct the mandates at the National Treasury every year.

State properties management was not effectively practiced such as some state properties were occupied by the private, making the state property inventory and state property possession certificate was not on time and sufficient....

Registering and monitoring the foreign financing which was implemented outside the National Treasury on World Bank loan and foreign funds were not complete. Debt inventory was not registered gathering at the National Treasury and led to have difficulty in monitoring and supervising.

II. Introduction

2.1. Overview

National Audit Authority (NAA) was established under the Audit Law of Kingdom of Cambodia promulgated by Royal Kram No. CS/RKM/0300/10 dated 03 March 2000. The purpose of this law shall be to establish a National Audit Authority which is independent in its operation and has the duty to conduct the external audit of the Royal Government of Cambodia (RGC) including the audit on accounting record, accounts, management system, operation controls and the programme of the government institutions. In the provision of this law, NAA has the obligation to audit on ministries-institutions, authorities, National Bank, state financial institutions and state and private sector joint venture financial institutions, public enterprises, provincial-municipal administrations, local authorities, contractors, suppliers of goods and services to the government under contracts and other organizations receiving financial assistance from the Royal Government in addition to their own equity and credits including tax exemptions and other concession to non-profit organization and private investment enterprises.

In addition, NAA has the important task to audit on the draft law on budget settlement to manage for each year and has to report the audit result to the National Assembly, Senate and copy to the RGC for information.

2.2. Audit Work and Scope

NAA audited in accordance with INTOSAI Audit Standards and the general audit standards. These audit standards require NAA to prepare an audit plan and conduct an audit filed work to receive the reasonable evidences of the weakness and provide recommendation for improvement by the assessment on the internal control system, financial operation, and testing on documents.

NAA was established since 2001 until 2009, it tried fulfilling the duty and task attentively in auditing ministries-institutions, provincial-municipal administrations, local authorities, public enterprises and other projects totally for 459 reports especially audits to verify on the draft law on budget settlement for each year. Separately in 2006, it had some noticeable points as extracted and raised in IV in this report which is in accordance with Article 29 and Article 37 of the Audit Law of Kingdom of Cambodia.

2.3. Intention of publishing

Starting from auditing until publishing this report, the some audit entities that faced challenges in the public financial management especially Ministry of Economy and Finance (MEF) tried improving following with the NAA's recommendations prideful such as eliminating gradually on

imported goods for re-export that cannot be supervised, changing from paying tax in cash at the place to pay tax through bank or treasury to reduce risk in cash management, changing new tax identification number to supervise on the activities of business of companies-enterprises effectively, advice to push paying stamp tax on goods supplying contracts to the state, releasing the information and other regulations concerning tax and non-tax requested repayment debt for many cases, improvement in paying the payment orders and strengthening the public procurement, advice to make property inventory and state property possession certificate. Changing the accounting system either from cash basis or accrual basis to use only the accrual basis and the debt were recorded by the national treasury... But at the same time, there were still some recommendations that some audited entities still did not improve timely.

Publishing the Audit Report to the public is to help the legislative and executive body in strengthening public financial management and work operation through pointing out the weakness that have implemented and given recommendations for improvement in the future towards having sound public financial management.

This is the first time that NAA prepares the publication of Audit Report. NAA is aware for being late in publishing the audit report to the public because we lack the technical resources and the experiences. However, NAA is looking forward to receiving any comment from all stakeholders.

NAA implements the duty in publishing the public audit report in accordance with the Article 29 of the Audit Law of Kingdom of Cambodia which states that “the report issued by the Auditor General should be deemed as the public document”. NAA is not responsible for any effect to ministries-institutions, provinces-municipalities, companies-enterprises or relevant individuals when there is a third person extracts the meaning of this Audit Report to explain or use with the wrong goal eventually.

III. Budget Management

3.1. Budget Execution Procedures

The 2006 Budget was executed under the laws and other regulations as follow:

- Financial Law for management of year 2006 was promulgated by the Royal Kram No. NS/RKM/1505/040 dated on 30 December 2005 for the government to execute and has the possibility in using the budget for the administrative operation and development of the country on all sectors .

- Sub Decree No. 04 GNKr.BK dated on 20 January 2000 about the organization and function of Ministry of Economy and Finance in Article 2 stated that MEF has the task and duty to lead and manage the public financial and economic sector of Cambodia through the organization and implementation of law framework and other regulations relevant to macro-economic management, public finance, state properties, investment affair and financial industry and other laws and regulations....

- Sub Decree No. 82 GNKr.BK dated on 16 November 1995 about the general regulation of public accounting in Article 116 stated that draft law on budget settlement should be sent to the National Assembly before the end of the year. This draft law is based on the general account of financial management and on operation statements that were organized by ministries-institutions.....”

- Law of Audit of Kingdom of Cambodia in Article 22 states that “the government must submit the yearly statements of the budget settlement to the National Assembly and the Senate for debate and vote and at the same time, the government must also send this document to NAA for auditing”.

- Draft law on budget settlement 2006 was sent to NAA on 24 October 2007 by the government to audit and make the verification on this draft law.

- NAA sent the audit report on the draft law on budget settlement 2006 to the National Assembly and the Senate 18 November 2008 .

- Law on state budget settlement 2006 was approved by the National Assembly on 29 December 2008.

3.2. Budget revenue-expenditure operation

The 2006 revenue-expenditure operation was prepared and based on the result of the revenue-expenditure operation that implemented through National Treasury and the result of externally financed public investment project that implemented outside National Treasury as follow:

- Total revenue achieved 4,728,052 million riel equals to 124% of the plan with the amount of 3,814,125 million riel.

- Total expenditure achieved 4,144,089 million riel equals to 109% of the plan with the amount of 3,814,125 million riel. Current expenditure achieved 2,366,553 million riel equals to 98% of the plan with the amount of 2,414,255 million riel and the capital expenditure achieved 446,494 million riel equals to 82% of the plan with the amount of 542,070 million riel.

- For the externally financed capital revenue-expenditure that implemented outside the National Treasury must be planned with equal balance of revenue and expenditure. This revenue-expenditure achieved 1,331,042 million riel equals to 155% of the plan with the amount of 857,800 million riel.

Budget Revenue-Expenditure Operation 2006

Unit in: Million Riel

Budget Operation	2005	2006		
	Implement	Financial Law	Implement	Percentage
	1	2	3	4 = (3/2)
I. Revenue	3,879,562	3,814,125	4,728,052	124%
- Current revenue	2,473,749	2,740,720	2,881,720	105%
- Capital revenue	271,256	215,605	515,290	239%
- Capital revenue from financing of foreign countries	1,134,557	857,800	1,331,042	155%
II. Expenditure	3,513,864	3,814,125	4,144,089	109%
- Current expenditure	1,967,455	2,414,255	2,366,553	98%
- Capital expenditure	411,852	542,070	446,494	82%
- Capital expenditure from financing of foreign countries	1,134,557	857,800	1,331,042	155%

IV. Audit Findings for the fiscal year 2006**4.1. Revenue Management****4.1.1. Control at the borders**

Smuggling in Cambodia is still the remarkable problems. Many goods are inside the country or are used by the users; just repress or force to pay customs duty later. In 2006, the case of prosecuting inside the country or at the centre of Phnom Penh city is in the amount of 55.60% of the total customs offence in the whole country (at the border and in Phnom Penh city). Beside this, there are lots of cars and motors that the owners asked at the customs authorities for paying the customs duty and taxes.

According to this, to manage the budget sufficiently, MEF should advise Department of Customs and Excise to strengthen and push for more preventing and repressing on all kinds of smugglings especially at the borders attentively and carefully.

In the response to the above point, MEF clarified that the ministry agrees on most of NAA's recommendation and the ministry will try to push the work more to be better. To prevent this problem MEF took measurements to Department of Customs and Excise strengthen the central offices and head offices branch to participate actively in repressing the smuggling.

Based on this clarification, NAA believes that MEF will implement following with the measurements strictly and effective measurements not only inside the country but also at the border.

4.1.2. Invoices and Parking list

Many goods that are imported into Cambodia now a day, some were imported under Pre-Shipping Inspection (PSI) and some other goods were imported through decision of Department

of Customs and Excise (DCE). The importation under PSI that signed the agreement with the government, all of the goods were under the inspection on declaration documents on value, kind and quantity before storing into containers and then sealing the containers. And for the imported goods through decision of DCE require the companies or importers to bring invoices and parking list and also relevant documents to request for customs value at DCE or customs authorities and at the passageways to get the import allowance based on the declaration of the goods owners as the basis. The circular No. 001 MEF dated on 23 February, 2000 about the additional clarification and the changing of the procedures in defining customs value stated that all of the documents must request for defining tax value through DCE, must be the original or copied documents which were acknowledged by the companies. Through the previous observation, all the documents (invoices and parking list) that were requested for defining customs value through DCE, most of them are the documents that were acknowledged to be their own import company or own importer making, some are without the seal, or the signature of the supplying company but were replaced by the sealing of the import company without the detail of kinds, sizes, and weights of each goods clearly, the proclaiming value has the gaps with the defining customs value and also the market value, etc. On the other hand, when import took place, some goods were under examination by TC SCAN machine which could not inform the kind and quantity of goods in the containers clearly and some other goods were under the physical examination which was generally in only the level from 5%-25%.

Base on this fact, to increase the further tax revenue collection, MEF should define the mechanism about using the imported documents clearly and inspect the goods strictly.

In the response to this problem MEF verified that what NAA raised is true but it is also difficult in defining which invoice is accurate or original one. But to implement this work more effective, MEF will push DCE to strengthen in examining of actual imported goods .

Through this clarification NAA expects that MEF should strengthen in inspecting on the import perfectly. At the same time, NAA still insists MEF to define the mechanism about using the import documents clearly, attached with the guarantee of the importers on goods declaration certainly.

4.1.3. Customs Warehouses Management in Poy Pet

At international gateways with lots of imports and high customs revenue, it is necessary to have state or private warehouses or fields administrated by the customs authorities, where goods can be stored, such as at Sihanouk Ville Port, Phnom Penh International Airport, and Phnom Penh Port, etc. Separately, Poy Pet gateway is one of the border gates with lots of imports and also with high customs revenue, but there are only private warehouses. Moreover, those warehouses often have no names or unclear noticeable signs, and they are not under the administration of customs authorities or they are not sufficiently controlled by the customs authorities; they are under the authority of the warehouse owners. The customs authorities who are responsible for this gates, have neither reports of in stock and out stock goods nor notes about stocking goods controlled and clear warehouses statistics.

Based on this fact, to supervise the imported goods and customs duty collection attentively and completely, MEF should take into consideration in building the state or private owned warehouses or field monitored and administered by the customs authorities effectively.

For this raising MEF agreed with NAA's recommendation because it is the important customs procedures that need to have customs warehouse or field to serve the administration of customs modalities effectively. Up to the present, at some important gateways do not have warehouses and fields that are administered by the customs authorities yet. This work needs to be pushed to find out the possible customs place along the border to set up this infrastructure as needed.

Based on this clarification and under the necessary case, NAA expects that MEF should start to change the situation as soon as possible.

4.1.4. Cooperation between Department of Tax and Department of Customs and Excise

MEF defined that only individuals who have Value Added Tax identification (VAT) and the annual Patent Tax payment can run the import-export companies. All of those companies-enterprises must implement the obligation of paying tax and declaring tax properly and regularly, to have the names or the companies' identification in the current (recent) registration of tax of Department of Tax (DT) and receive the rights to run the business legally. In 2002 MEF issued the circular letter No. 004 MEF/DT dated on 06 June about the establishment of the working group between DT and DCE to cooperate on the information and data exchange: the names of tax payers in the purpose of managing, preventing and repressing the smuggling on time. Through the previous observation, there were some companies-enterprises did not declare tax properly and timely and some requested for cease, some stopped their business temporarily and were taken out from the current tax registration by DT, but in reality those companies-enterprises still make importation as usual. In fact, in 2006 there were nearly 100 companies-enterprises that did not have names in the current tax registration of DT but those make importation of goods.

Based on the above observation, to prevent the non tax declaration and supervise tax collection sufficiently, MEF must advise both departments to cooperate on the information and data exchange timely and also administer the business activity of the companies-enterprises carefully.

In the response to the above problem, MEF agreed partially what NAA raised; even though, the ministry added that this case was caused by DT that sent VAT-IN companies-enterprises to DCE in every 3 months. During sending the formal data in every 3 months could cause to have data gap between those two departments. To avoid the error of data administration, MEF thinks that the decision to remove the companies-enterprises from the current registration DT must inform the DCE immediately without waiting until 3 months. MEF will take measurement to DCE to propose this request for discussion.

Based on the above clarification, NAA hopes that MEF will advise both departments to implement sufficiently and effectively in accordance with the above circular letter No.004 and what the ministry raised above.

4.1.5. Management of Tax Declaration

Companies-enterprises operated under the self-declaring regime (real regime) have the duty to give monthly and annually tax declaration to tax administration at a particular date. DT has the duty to examine on those tax declarations to find out the unusual tax declarations that will include in the (post) audit programme and verified tax declaration again. In 2006, there were more than five thousand companies-enterprises declared their tax at DT. NAA examined the twenty companies-enterprises found that more than ten companies-enterprises declared the turnover (gross sales) incorrectly. Some companies-enterprises declared the monthly gross sales smaller than the annual gross sales and some companies-enterprises declared the monthly gross sales bigger than the annual gross sales; moreover, as per the audit date (02 July 2007) those companies-enterprises were not included in the audit programme yet.

Base on this fact, to supervise the business activity of those companies-enterprises and the accurate tax collection, MEF should advise DT to strengthen the examination on tax declaration of companies-enterprises timely.

In the response to this problem, MEF clarified that declaration regime, the companies-enterprises declared themselves. The differences could be caused by the companies-enterprises using accrual basis (accounting system) to record their revenue but not yet issuing the receipt. Through the examination on the documents of the companies-enterprises found the differences between monthly and annual gross sales, MEF will take measurement to push DT to include those companies-enterprises in the audit programme to examine on the accuracy of tax declaration. For tax differences, auditors (taxation officers) will re-define tax according to the law.

Base on the above clarification, NAA expects that MEF will advise DT to strengthen the examination on tax declaration (Desk Audit) to find out improperness of the declaration and put into audit programme and re-examine tax on time.

4.1.6. Tax Registration for Small Enterprises

Registering of small enterprises into tax approved list is the necessary basis in levying tax from all small enterprises. Tax officers only can collect taxes from small enterprises, if these are registered into the tax approved list. According to the Law, Tax Units have the duty to update the tax payer, define tax payable, and collect tax revenue on monthly basis but previously, some small enterprises were not registered into tax approved list. In 2006, through the testing on some small enterprises at some places of Tax Department Branches in Phnom Penh, Sihanouk Ville, Banteay Meanchey, Kratie, Preyveng and Kampong Thom provinces showed that more than seven hundred enterprises did not register into the tax approved list yet.

Base on this fact, to levy tax accurately and completely, the Province-Municipality must advise the tax provincial department branches to register small enterprises into tax approved list accurately to levy tax sufficiently and timely.

For this problem, the above relevant Province and Municipality agreed with the audit report and already pushed tax provincial department branches to examine and register the small enterprises into tax approved list gradually but clarified the difficulties in registering of some small enterprises stops running their business for a while after moving the location and every year new small enterprises start their business.

Based on the above clarification, NAA hopes that all the Province and Municipality will try to register all small business in the tax approved list completely.

4.1.7. Collection of Stamp Tax

The 2005 Financial Law defined that all of the legal documents about establishment and dissolving the company, contract on supplying goods and construction to public institutions must pay the stamp tax in the amount of 100,000 riel. Previously there were some documents that did not pay the stamp tax as law states. In 2006, based on the audit at 5 Provincial Offices and some Khums and Provincial Departments showed that there were more than a thousand contracts did not pay the stamp tax.

Base on this fact, to supervise the stamp tax collection accurately and completely, all the 5 Provincial Offices must advise the DT Branches, Procurement Units and other relevant units to cooperate in collecting of the stamp tax revenue accurately as per law fixes.

In the response to the above raising, the Provincial Offices agreed with the audit report and will try to find out the methods in collecting of the stamp tax more effective.

Based on this clarification, NAA hopes that all the relevant units will cooperate with each other in levying the stamp tax to work smoothly and in accordance with law .

4.1.8. Tax on Unused Land

The 2004 Financial Law stated that lateness in paying tax could be exempted, delayed or reduced from the additional tax payment in case of a catastrophe to the business or the property of the tax payer or the tax payers' live but however, tax exemption, the minister of MEF has to decide. Previously, the work concerning to this case, some implementation did not follow the provision of the law . According to the audit at Phnom Penh's Tax Branch and at Sihanouk Ville's Tax Branch in 2006, NAA found that there were exempted totally on the tax and additional tax as of more than one hundred and fifty cases.

So, MEF should define the procedure on how to exempt the tax or additional tax on unused land clearly to supervise tax collection to be better and implement in accordance with the law fixes.

Based on the above mention, MEF did not response, so NAA assumed that MEF agreed with what NAA raised up.

4.1.9. Unused Land Registration Since 1996, the Unused Land Evaluation Commission released the instruction to the Unused Land Evaluation sub Commission (ULES-Commission) in the

provinces-municipalities by defining the function of this sub commission who has the duty to register all unused land at their own provinces-municipalities. Previously, this case was not implemented sufficiently yet. In fact, in 2006, according to auditing at some of the provincial and municipal Tax Branch: Banteay Meanchey, Svay Rieng, Sihanouk Ville, Phnom Penh found that those sub Commission did not register the unused land in their province and municipality.

Base on this fact, to supervise on unused land clearly and levy tax accurately, sub Commission in the provinces-municipalities should register all unused land that must pay tax at each region of provinces-municipalities promptly and timely in accordance with the instruction of the Unused Land Evaluation Commission.

Response to the above problem, the Provinces-Municipality agrees with NAA's report.

Based on the above clarification, NAA hopes that Provinces-Municipality will register all unused land sufficiently and timely to supervise on levying tax on this part to be better.

4.1.10. Rental Fee from Concession Land

As a representative of the government, Ministry of Agriculture, Forestry and Fisheries (MAFF) signed the contract with more than 70 investment companies from 1992 to 2006 to develop concession land of more than 1 million hectares and most of the contracts are effective more than 70 years. In May 2000, the Council of Ministers decided that MAFF and MEF should evaluate and define the price of the rental of the land. Until 2007, evaluating and defining the price of the rental of the concession land were not implemented sufficiently in accordance with the decision of the Council of Ministers.

Base on this fact, MAFF and MEF should cooperate with each other to evaluate and define the rental fee of the concession land as soon as possible to administer the collection of the rental of the granted land to be better.

In the response to the above problem, MEF agreed with NAA's audit report. At the same time, the ministry will take measurements to insist MAFF, especially the inter-ministerial commission, to push and speed up in defining the kind of the concession land according to the real geography of each contract and define the kind of the crops to manage the collection of the revenue from this field on time. Separately, MAFF clarified that until now the total land area of those companies could not define exactly because most of the companies faced a land conflict with the citizens and did not solve it yet; some cases were over the competence of MAFF and the ministry already gave to the authority to solve the problem. In the present, the concession land management is very complicated because the citizens occupied some parts and the other parts the companies could not put the machine to start growing crops. Even though, after adding the members of the inter-ministerial commission from 7 to 10 members, this commission implements their work gradually. MAFF and MEF is examining and giving recommendations to define rental fee of the concession land in accordance with the meaning of the letter No.803 SCN dated on 31 May, 2000 of the Council of the Ministers. In conclusion, defining the rental

fee of the economic concession land is now being implemented by the inter-ministerial commission to define the rental fee of the concession land but is a bit slow because this work is complicated and scientific.

Based on the above clarification, NAA expects and requests MEF, MAFF and the inter-ministerial commission to define the kind of the concession land quickly and timely in accordance with the contract.

4.1.11. State Budget Allocation to the Commune

The expense (budget) of commune come from tax and non-tax revenue (revenue from services and state properties such as administration fee, services, and rental of the immovable properties...) and state budget allocation. According to the law, the state budget allocation must be transferred to the commune budget through Provincial Treasury three phases a year:

- First Phase, at least 50% (of the total budget) by 31 May
- Second Phase, at least 30% by 31 August and
- Third Phase, at least 20% finalized on 31 October.

But as actual implementation, NAA observed that the state budget allocation were not transferred to commune on time. In 2006, commune: Kampot, Takeo, Kratie, Banteay Meanchey and Prey Veng provinces got the state budget (data from the National Treasury to the Provincial Treasury) as follow:

- First Phase, between 29 March and 05 April 2006 in the amount of 44.50%
- Second Phase, between 15 June and 06 July 2006 in the amount of 5.50%
- Third Phase, between 11 and 26 July 2006 in the amount of 44.50%
- Fourth Phase, between 15 and 27 November 2006 in the amount of 5.50%.

And until the end of December, each commune just received the allocation in the total amount of 20,432 million riel for 16 Phases.

Base on the above problem, Commune councils must cooperate with the local administration unit to request for the policy from the Ministry of Interior and MEF to transfer the state budget allocation on time.

Response to the above problem, Commune councils agree and suggest to the government to give the budget allocation timely.

Based on the above clarification and suggestion, NAA hopes that the government will give the state budget allocation to Communes on time which mentioned in the law.

4.2. Expenditure Management

4.2.1. Payment before the date in the contract

Letter No. 5944 MEF dated on 22 September, 2005 about the organization of the procurement contract in the manner of settling and construction validity insurance on the repairing and

constructing which are implemented by the state entity defined that all of the payment in the first phase to the state entity “contractor” can be made after signing the contract for 7 days. But according to the examination on 41 contracts out of 62 contracts about the maintaining and repairing roads-bridges which were implemented by the subordinate entities of Ministry of Public Works and Transportation (MPWT) in 2005-2006; NAA observed that 15 contracts were paid the first phase to the “contractor” by MPWT before signing the contract.

Base on the above problem, MPWT and MEF should implement attentively following with the meaning of the above letter No. 5944 and respecting the term and condition of the payment as states in the contract to manage the state budget effectively.

Response to the above problem, MPWT clarified that payment the first phase before signing the contract because the contractors were the state entities including Provincial-Municipal Department of Public Works and Transport, Engineering Institution, Department of Engineering, etc. that did not have the budget to start work. So MEF issued the letter No. 3567 SHV.VS dated on 24 July 2002 added on the forms and procedures in using funds for repairing and maintaining roads-bridges and the instruction letter No. 3363 SHV.VS dated on 12 July 2002 to strengthen the implementation of the financial policy and procedures for the budget expenditure in Chapter 50 (now is Chapter 21) by the engineers which fixed the pre-payment maximum to 20% or 30% according to the project and work category to help those institutions can start work timely. But the policy in the contracts MEF fixed that must be paid to “contractor” for 40% of the total cost of the contract in 7 days after signing the contract (letter No.5944 SHV dated on 22 September 2005). Beside this, first phase payment (pre-payment) to those entities was to push the work of constructing and repairing roads-bridges immediately to serve the social work and develop the economy. At the same time, after the flood catastrophe, roads infrastructure were always suffered accidentally which need the pre-payment to repair roads-bridges to make the traffic work properly and timely.

Base on the above clarification, NAA stresses that the above 15 contracts were not in the urgent or priority cases or implemented by the engineering unit, so both ministries should implement in accordance with the letter No. 5944 of MEF and the term and condition of the contract.

4.2.2. Attending Procurement Commission

Government paid close attention to implement the decentralization and centralization reform policy in the purpose of pushing the development at the grassroots towards reducing poverty of the people. Commune (Khum-Sangkat) development must be led by procurement commission of Khum-Sangkat which has chief of Khum-Sangkat as the chairman, and supported by the technical officers to assist the implementation of the procurement processes such as managing the documents, advertisement for calling the bidders, selling the bidding documents, receiving the bidding documents, opening the documents and delivering the contract. According to auditing in some Khums in 5 provinces in 2006, NAA observed that some Khums’ procurement commissions in the Kampot, Takeo, Kratie, Banteay Meanchey and Prey Veng provinces did not assist the procurement process sufficiently, such as the preparing the bidding process, supervising the management of bidding documents, advertisement for calling the bidders, selling the bidding documents and receiving the bidding documents.

Base on the above fact, to implement completely decentralization and centralization policy, Khum's procurement commissions of 5 provinces should involve in Khums procurement implementation process.

Khum councils agree with the judgment and recommendations of NAA.

Based on the above agreement, NAA expects that Khum-Sangkat procurement commissions will involve in the process of the bidding procedures attentively.

4.2.3. Booking Rewards

To encourage in intensifying and repressing smuggling and evasion from paying tax and collecting revenue over plan, MEF released the declaration to give rewards to the customs and tax officers and also to the participated persons. Previously and also in 2006, the customs and taxes revenues that were withdrawn from the sum of revenues as rewards, but were not entry in the state account .

Base on the above problem, MEF should implement accurately in accordance with Article 11 of the 1993 Financial System Law which the revenue must be totally recorded without offsetting with the expenditure and the instruction letter of the Council of Ministers No.1490 SCN.SR dated on 13 October 1999 stated that the rewards can be provided, but must be recorded in the state account as mention in the financial principle .

Response to the above raising, MEF clarified that to push the review and repress the smuggling effectively and to encourage the tax and customs officers and also the participated persons, the rewards management should be implemented following with Declaration No. 032 SHV.BrK dated on 17 January 2005 and the instruction letter No. 1490 SCN.SR dated on 13 October 1999 of the Council of Ministers that allowed giving the rewards immediately but must be recorded in the state account .

Base on the above clarification, NAA hopes that MEF will implement in accordance with the above mention by recording all rewards in the state account.

4.2.4. Payment Orders in National Treasury

At the end of each fiscal year, MEF always set the deadline for receiving payment orders by the National Treasury and Provincial-Municipal Treasuries at 17:30h on 29 December to close the revenue-expenditure account and settle the annual budget. Article 109 of Sub Decree No. 82 GNKr.BK dated on 16 November, 1995 about the general regulation of the public accounting defines that the commitment of the payment that cannot be settled on 31 December must be forwarded to next year's budget . But in general the payment orders were sent to the National Treasury forcefully at the end of the year and the settlement of the late payment orders were always done every year. In 2006 National Treasury received the payment orders (national level)

from MEF that were sent after the deadline for more than seven hundred payment orders with the amount of more than one hundred thousand million riel.

Base on the above problem, MEF should rush in sending the payment orders to the National Treasury on time and avoid sending forcefully at the end of the year to implement in accordance with the declaration about closing the annual revenue-expenditure account and Article 109 of Sub Decree No. 82 about the general regulation of the public accounting.

Response to the above problem, MEF clarified that MEF agrees with NAA's raising. National Treasury still settled the payment orders after the deadline because in December, all ministries-institutions sent the payment orders to MEF forcefully that need the ministry to gather to settle those expenditures. To solve this problem, MEF will strengthen all ministries-institutions to try pushing the budget implementation in accordance with month and trimester revenue-expenditure budget programme to avoid lots of payment orders at the end of the year.

Base on the above clarification, NAA expects that MEF will speed up sending the payment orders for closing account in accordance with the date of each budgetary year.

4.3. State Properties Management

Possession Certificate on State Property

MEF issued letter No.5301 SHV.TR dated on 29 September 2003 to all ministries, secretariats of state, institutions, and provinces-municipalities to apply for title (possession certificates) for all immovable state property immediately. But according to the observation in the previous year some ministries-institutions did not apply for title on all the immovable properties sufficiently and on time yet like in 2006 NAA audited some institutions that use state properties with some noticeable points as follow:

- The Ministry of Women Affairs (MoWA) did not apply for title on the state owned land and building with the size of 15,400 m². This land and building were occupied by the citizens of about 12,427 m².
- The Royal University of Agriculture did not apply for title on 380 hectares of state owned land; of which 355 hectares are occupied by citizens.
- State Secretariat of Civil Aviation (SSCA) did not apply for title on the state property under its supervision, such as airports in Phnom Penh, Siem Reap, Battambang, Ratanakiri, Mondulakiri, Koh Kong, Steung Treng, and Kong Keng.
- Banteay Meanchey Provincial Office did not apply for land title for 34 landlords equal to 207 hectares.
- Kampot Provincial Office did not apply for land title for 6 landlords equal to 2.8 hectares.
- Some districts in Kampong Thom province: Sandaan ct, Storng Kampong Svay, Brasat Sambo, and Brasat Balaing did not apply for title on state owned land and buildings.

Base on the above problems, all institutions that use state properties must cooperate with the relevant institutions to hurry up making the possession certificates on state properties sufficiently and immediately to supervise state properties safely and effectively.

For the above raising, most of the institutions and provincial-municipal offices named above agreed with NAA's recommendations. But SSCA declared that parts of the land (BABALER-opposite of Phnom Penh International Airport) did not have the property possession certificate because of its military purpose . Kampot Provincial Office also had the intention to make possession certificates on the state properties, but referred to the costs of making the possession certificates and already requested to the Ministry of Economy and Finance (MEF) to allocate additional budget for this task. Separately, RUA already tried solving this problem, but did not have the result yet.

Based on the above clarification, NAA hopes that MEF and all relevant institutions will cooperate in making the possession certificates for state owned properties quickly and sufficiently.

4.4. Debt Management

4.4.1. Foreign Grant in Budget Settlement

MEF is the representative of the government to prepare the Draft Law on Budget Settlement to send to the National Assembly for approval. In managing the draft law on budget settlement for each year always has the difference of revenue-expenditure figures financed by the foreign countries (foreign loan and grant) implementing outside the National Treasury that need to collect the data from all development partners, ministries-institutions and other organizations. Separately in 2006 the revenue-expenditure figures financed by the foreign countries which implemented outside the National Treasury were over-state and did not have the documents to verify sufficiently.

Base on the above fact, MEF should set up the mechanism in collecting the data of revenue-expenditure financed by foreign countries sufficiently and on time for the accurate and accountable supervision on revenue-expenditure figures financed by foreign countries that implemented outside the National Treasury.

For this problem, MEF admitted that there was technical confusion in calculating and over inserting the figures outside the National Treasury. On the other hand, for foreign funds documents, MEF and other governmental institutions did not have neither because those projects were implemented by the development partners or through non-government organizations that were rented by the development partners. MEF will continue discussing this problem with the development partners.

Base on this clarification, NAA hopes that MEF will have mechanism in supervising the data on the revenue-expenditure figures financing by foreign countries that implemented outside the National Treasury clearly and accurately.

4.4.2. Debt Record

MEF has the duty to direct and supervise the collection of the revenue and debts to support the budget. In 1995 the government issued Sub Decree No. 82 GNKr.BK dated on 16 November about the general regulation of the public accounting in Article 20 stated that National Treasury accountant who is the central accountant of the treasury in Phnom Penh is treated as the main accountant. The accountant implements the performance of the main manager and gathers performances that were conducted by the provincial-municipal accountants and the accountant of the financial administration institution. According to the audit at MEF and the subordinated institutions showed that debt figure did not record and supervise at the National Treasury yet and left some requested repayment debt.

So MEF should advise the relevant institutions to send debt figure to the National Treasury to record and follow up clearly and have strict measurements in collecting debts to pay into the state budget sufficiently and on time.

For this case, MEF agreed with NAA's audit report; previously, debt registering was conducted separately at each expertise department but when the National Treasury changes the accounting system from "cash basis accounting system" to "accrual basis accounting system" all kinds of debts will be gathered at the National Treasury. On the other hand, for the above debt, some were already paid back and some could not request for paying yet, the ministry is taking strict measurements by implementing many procedures gradually.

Based on the above agreement, NAA hopes that debt figure will be gathered and for the debt that did not settle MEF will take measurements in requesting repayment debt actively to fulfill the state budget revenue and clear the outstanding debt .

5. Conclusion

Through the points showing above, NAA hopes that the audited entities will try to improve which actively contribute to the public financial management to be better in accordance with the rectangle strategy policy of the government.

At the same time, NAA strongly believes that the public will provide comments and also appreciate this achievement which pushes NAA to continue developing its capacity works towards the improvement of the audit quality to help in protecting and developing the country eternally.