

September 15, 2015

National Assembly of Cambodia
H.E. Post Dr. CHEAM Yeap
Chairman of the Commission on Economy, Finance, Banking and Auditing of the National Assembly
National Assembly Street
Phnom Penh, 12301
Cambodia

Draft Law on Accounting and Auditing in Cambodia

Dear H.E. Post Dr. CHEAM Yeap,

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It works with its member organizations around the globe to achieve this goal.

Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, represents approximately 2.8 million accountants in public practice, industry and commerce, government, and education. The Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA) is an IFAC Associate.

IFAC welcomes the opportunity to provide its views on the draft law on accounting and auditing. It recognizes the important role that the profession plays in strong economies and capital markets; in particular with respect to the key function auditing plays in the development and publication of high-quality financial reporting.

For many years, IFAC has spoken about the importance of audit quality and ways in which audit quality can be enhanced. Additionally, IFAC promotes the importance of global regulatory consistency—in particular, the importance of global adoption and implementation of high-quality international standards. The following comments are provided in that context.

General Comments

IFAC acknowledges the importance of legislatures, regulators, the accountancy profession, and all key stakeholders undertaking initiatives to promote and enhance audit quality. As such, it congratulates the National Assembly in taking the initiative to review legislation pertaining to accounting and auditing in Cambodia.

As noted, IFAC promotes the importance of the global adoption and implementation of high-quality international standards. In the case of financial reporting, International Financial Reporting Standards



(IFRS), International Standards on Auditing™, the *Code of Ethics for Professional Accountants*™ (*Code of Ethics*), and International Education Standards™ for accountants are particularly relevant.

In terms of the regulation of the accountancy profession, IFAC recognizes that models of regulation differ across the globe, with different jurisdictions having regulatory structures appropriate for that jurisdiction's characteristics and environment (see IFAC's Policy Position Paper #1, [Regulation of the Accountancy Profession](#).) Therefore, it is important that each jurisdiction assesses what is most appropriate for it, and that if a choice is made to apply arrangements from other jurisdictions, careful consideration of the appropriateness and relevance of those arrangements needs to be undertaken.

Comments on Specific Articles

The following observations are made with respect to the draft legislation, and are matters that, respectfully, IFAC believes could warrant further consideration and possible revision:

- Article 3: It appears that the legislation is intended to apply to all organizations in Cambodia, except for the Central Bank. In many jurisdiction around the world, regulations for accounting and auditing differ depending upon the types of organizations. That is, many jurisdictions will have a particular set of regulatory arrangements for public interest entities (PIEs) and different regulations for other organizations. For example, financial reporting standards applying to small- and medium-sized entities might be different from the reporting standards for publically-listed entities, where higher levels of disclosures are typically required. Also, prohibitions of the provisions of non-audit services may also differ between larger entities (often PIEs) and smaller entities, where the provisions of business advice is commonly sought. Having different requirements means that regulatory requirements will be applied proportionately and encourage a deep and broad quality audit environment.
- Article 15: Regarding mandatory audit firm rotation, IFAC believes there is insufficient evidence to support the view that mandatory audit firm rotation will enhance audit quality. Furthermore, we have expressed our concerns about the additional costs and uncertainty—for organizations and auditors—of having different independence requirements for auditors in different jurisdictions, and, in particular, between jurisdictions within the same region. A case in point will be in Europe where legislative amendments will potentially create increased business costs and greater uncertainty from possibly having 28 different sets of independence requirements within the region. For Cambodia, IFAC believes it is important to consider the arrangements in other jurisdictions within the region—in particular in other ASEAN countries—to ensure that fragmented regulatory requirements does not lead to unnecessary complication and confusion. Furthermore, IFAC would refer the National Assembly to the independence requirements outlined in the *Code of Ethics*, which has been adopted in over a hundred jurisdictions around the globe.
- Articles 35 and 37: While IFAC does not dispute the need for proper monitoring, compliance, and enforcement mechanisms, it believes that it is important to ensure that such mechanisms are appropriate and clearly defined. With that in mind, IFAC believes that it might be appropriate to



provide greater clarity in these two articles explaining what “falsifying” an audit report and failing to file a complaint means in practical terms. It is important to consider that the work undertaken by an auditor is directed by the auditing standards used. Therefore, while appropriate measures should be clearly in place with respect to acts of criminal negligence, mechanisms should not aim to penalize an auditor for complying with professional auditing standards.

If IFAC or I can be of any additional assistance, including clarifying the points in this letter, answering additional questions, and providing more information, please do not hesitate to contact me.

Regards,

A handwritten signature in black ink, appearing to read "Faye Choudhury", is written over a light gray rectangular background.

Faye Choudhury
Chief Executive Officer