

*The 24<sup>th</sup> Finance Learning Forum Minute :*

# “Preparation of Financial Standard for Not-for-Profit Entities”



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Partnerships for Sustainable Development in Cambodia

# Minute

## The 24<sup>th</sup> Financial Learning Forum

### *“Preparation to Financial Standard for Not-for-Profit Entities”*

**Date: 14 August 2019, 8:00am – 5:00pm**



**Venue: Diakonia Center #19-21, Street 330, Boeung Keng Kang III, Chamkamorn, Phnom Pen**

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Annex: Detailed Agenda

## I. Introduction

As the largest membership-based platform for Non-Governmental Organizations (NGOs) in Cambodia. Currently, the Cooperation Committee for Cambodia (CCC) has 181 international and local NGOs as members, working on different development sectors in the country.

One of seven program strategies is **Learning and Capacity Development** for CCC members and other interested CSOs. Normally, CCC organizes four learning forum platform every year, learning forum on Human Resource Management (HRM), Monitoring and Evaluation (M & E), Information Communication Technology (ICT) and Finance Management forum, they are very importance to build the capacity of its members for better performance of their service delivery.

To ensure the quality of the learning forum CCC has formed the Working Groups to provide inputs and advice for NGO learning community in Cambodia. The Working Group will play role as an oversight committee to provide strategic and technical support to NGO community for effectiveness and efficiency development in Cambodia.

To keep responding to the needs of the NGO community, CCC conducted the 24<sup>th</sup> Finance Learning Forum on **“Preparation to Financial Standard for Not-for-Profit Entities”**.

## II. Objectives of the Finance Learning Forum

- To review the outcome and impact of last finance learning forum
- To Enhance understanding on tax compliance and implementation for non-for-profit entities
- To learn and discuss the basic needs of Financial statement for preparation to financial reporting standard of NAC
- To strengthen relationship and network among finance practitioners and professionals for ongoing learning on Financial Management issues and good practice.

## III. Expected outputs

- Have better understanding of tax compliance and the practical taxation for Not-for-Profit Entities.
- Be better preparation for its financial statement to the financial reporting standard of NAC
- Have more chance to learn, share, and build up more relationship among people who have same interest from similar fields.

## IV. Result of the forum:

There are 180 participants (117 women) which from 106 NGOs including 62 foreign NGOs, 44 Local NGO and 1 private sector. There are 22 participants whose are non CCC member. The description below is the main results of the forum:

### 4.1: Welcome and Opening Remark

The welcome and opening remarks was provided by Ms. Sin Putheary, Head of Communication and Membership Development of CCC. First of all, she mentioned that as Mr. Soeurng Saroeun ED of CCC has busy with the mission at the province so today she is representative of CCC Executive director is warmly welcome to all the participant in this forum and gave deeply thank to working groups and all CCC member who always working hard to find out key topics that response to the hot issues in currently development challenges, especially challenge related to the taxation. She also mentioned that this forum we noticed that the women is much more than men if compare the previous forum is men are much more than women. Continually she said that as you now so far there is one survey that CCC has conducted to 206 Organization who are CCC's member, there are three challenges that our members faced, firstly, is related to the compliance of the taxation. Secondly, is related with the internal governance that is including HR policy, Finance Policy and other policies. And thirdly is related with the situation of the financial in each organization, as we noticed that funding is rather decrease or has some challenges from the doners.so the question is that if CCC and member take action for these challenges or not? There are some points that we do, we have taxation working group with National Taxation Department of Ministry of Economic and Financial, and they allocated 15 seats for NGOs.so it is a part of our commitment. So what are they doing? They are the one who raising the challenges from the voice of the organization to the ministry. above all related with the withholding Tax that our working groups has raised it to the Taxation Department. So beside this we have lots of learning forum that can help to our members NGO. And on 26 August we also have one meeting that is focused on financial standard Tier 2, so we will send out the email to invite you to attend in this important meeting. And what about the funding situation that our member faced, as you now recently CCC has offered sub grand to nine NGOs as our member, now we try to find the way by cooperation with government for CSO Funding, that is our dream, and for this ideas we planned it long time ago so we need the support from all the NGO to make the Civil Society Fund functioned. She also deeply thanked again to working group and CCC team work that always strongly support to make it happened, then she announced to open the forum from now on.

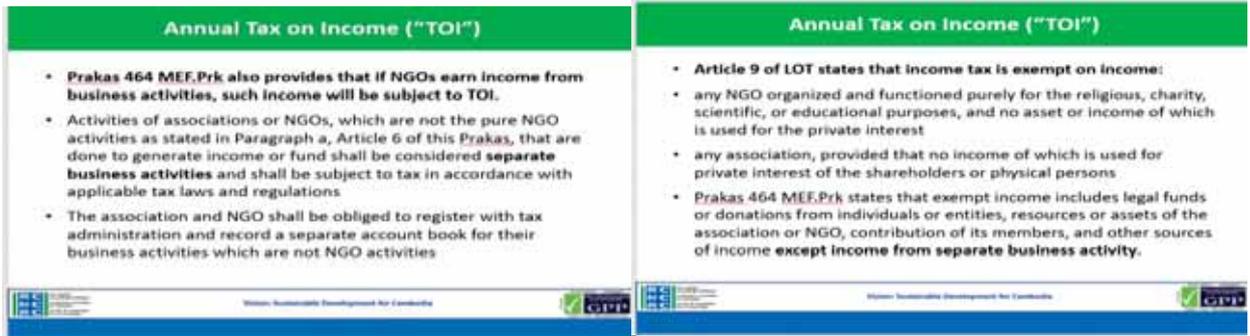
### 4.2: Session1: Review last learning forum topics on “Cambodian Financial Reporting Standards for Not-for-Profit Entities” by Mr. Om Nareth, Finance Manager, CCC

For the review the last minute of learning forum of course there are lots of topics such as: How to register VAT TIN, Tax on salary (Template & calculation), Fringe benefits calculation, withholding tax (Goods and services) but Mr. Om Nareth said that he is going to review only focused on Annual Income Tax (ToI) only because of others topics are also will be presented by the next speaker, that they are going to detailed about it clearly. firstly, he asked the question to the participants to check weather how many people they used to attend in the first forum that introduced by Mr. Tola from NAC related to cash basis. And one more time is introduced by Mr. SIM lysim that come from the company VDB, that presented

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on taxation, salary tax, fringe benefit and withholding tax and also talked about annual taxation and also practice by competing the forms. So before review the session he also introduce his name and his position to the participant as well.

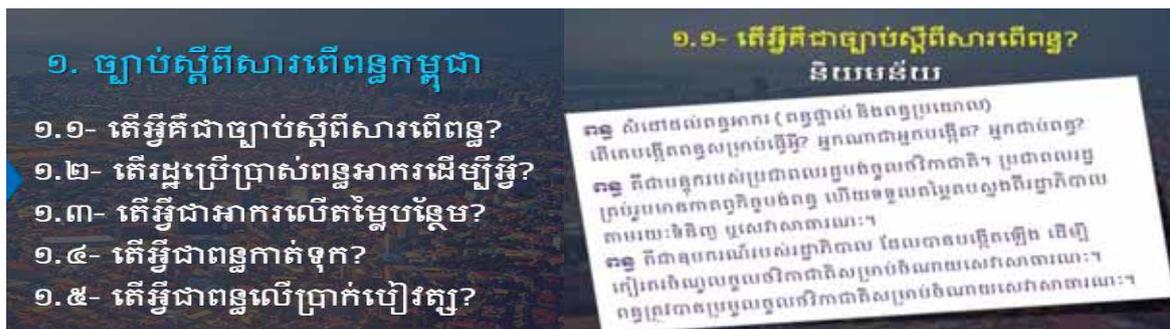


Before he finished his session he also mentioned about the recommendation from Mr. Tola, that advised to NGO to submit the request to MEF for exception in Payment tax, and he mentioned that mostly our team here is already submit the request to MEF but for those who is not submit should be hurry to submit now to get the exception letter from the Ministry. And he also mentioned that CCC is already done for that in December 2019 and continually communicate for support documents until May 2019 that Taxation Department release exception letter and mentioned what we have to pay for tax and what we should not pay for tax. He also mentioned that income that is not require to pay for tax including: fund from the donor and fund from the membership fee, but beside that like provide training to the NGO partners and get income it is also subject to the tax payment.

### 4.3: Session 2: Taxation Law in Cambodia: by Mr. CHHOEU Chhardaphea, Compliance Manager of iDE

For this session as warming up or making the forum more active participate from the participants the facilitator gets the group of each table work as a group by answer to the question “What are your challenges in implementing the taxation”, in each group they only raise up their tops questions maximum only Three challenges and the facilitator has go around the room to capture the questions of group discussion to make it easy to start the next session, after coffee break the facilitator ask the participants from one group to present their challenges then the facilitator said that their challenges will be answered in his slide presentation. As continually session, Mr. Chhardaphea, compliance manager from iDE has welcomed to all the participant and he mentioned that what he is going to present some are extracted from the government law and some from his real practice in his place. Firstly, he showed all his content for the presentation today including: Taxation law in Cambodia (What is taxation Law? what does government use income from taxation for? what is withholding tax? What is tax on salary?)

#### 4.3.1: What is Taxation?



After he presented about the definition of Taxation law by capture the meaning from other resources, he also mentioned to the participants related to the process of register to MEF for association and non-Governmental organization as in slide below:



After That he explained about the process of register of taxation with Tax department. And he also showed about some documents that after we registered we will get the document as shown below:



After he showed the documents that each institute will received after they registered, he also presented about the Prakas instruction on the obligation of taxation for association and NOGs. he mentioned that it was released since 2018 that required association and NGO to register with MEF for tax withholding.



### 4.3.2: What is Taxation used for?

Then after that he also presented about the introduction on motivation from Taxation Department to Association and NGOs who already registered with MEF. At the same time, he mentioned about the public service from the taxation that government use fund from the taxation:



### 4.3.3 What is Value Added Tax?

After he mentioned the benefit from the taxation that government collect from the Association and NGOs, then he mentioned about the Value Added taxation, He mentioned about the services that is subject to value added tax and also mentioned on the rate of tax on the commission service. The detailed of the meaning was started in the slide and in the receipt and invoice as shown below:



### 4.3.4 What is withholding Tax?

Here he mentioned about the bodies that subject to the withholding tax, here he explained by the difference resident and non- resident who is subject to the withholding tax, here he focused that for resident who provide benefit to non-resident have to apply 14% as withholding tax to the total salary paid to him/her as non-resident. But for resident have to pay 15% as



gain benefit was released, as an experience we never think about the withholding tax, as so far withholding tax we applied to those supplier who did not register with taxation department even if they are NGOs or private sector, Now I am thinking when my team has mission in my target areas and use the services of any NGOs like us, so do have to ask him/her that The activity that he/she running separately is registered or not and if he/she registered, do I have to apply 15% as withholding tax with him/her? I am not clear yet here.

**Answer:**

For those activities, when they asked for exception from the tax department, it will mention between the activities which will be charged and won't charge, so for those services if it is not stated in the non-charge, so we have to apply the withholding tax policy. but for this we are not sure wait for next time we will invite the one who is skillful with tax to talk as it is a law, so we are an NGO we cannot talk detail on this as we did not apply income tax in the name of NGOs.

At the same time Mr. Meas Kheang has added that for the point that when we will apply 15% of withholding it is not clear yet, and one point he mentioned that in another PRAKAS if the activities that the organization running to get the benefit and those fund using in term of achieve the goal of that organization then it is also excused. He encouraged the participants to follow up on this closely, as now FM working group are now working together to negotiate with the government for separately registered of NGOs for some activities that earn the income. Because if we get the income and we deliver to the shareholders of that business, here it is right that we have to register separately, but if your organization earn income but you use for supporting the program so it should not register separately, so here it is not clear yet. and we also ask for clear to government to make sure that how much of budget that NGO earn that should be register, as meanwhile some NGO earn less than ten thousand dollars it is a small amount so do they have to register or not? If register it burden to the NGO for recording and play two roles at the same time as nonprofit and one more as profit, so now we are working on it, how much as per annual income that should register, Ex: if the income is more than a hundred thousand as per year have to register separately but if the amount is below a hundred thousand it should not. so as conclusion for these points related to the income is still not clear.

**Question:**

**Puth Chandara** from SNV: first He mentioned that between one NGO and Another NGO that use the service of each other in term of non-benefit and it is for humanitarian purpose it should not related with the Taxation, as it is in the manner of partnership, but if what they are doing is against to the Humanitarian purpose it must subject to the withholding Tax. It is my personal understanding if it is not right please correct me.

**My question is focused on asset rental, such as office rental or apartment, sometimes that place is registered, he is a legal entity, so when his receipt released, VAT is included, but according to the update law it required to have 10% as withholding tax more on it so totally 20% and meanwhile our donors disagree as in the bill or invoice**

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showed only VAT and 10% of withholding tax is not shown. So donors are based on invoice, so my question is “how to show 20% in that invoice or bill?” to get the donors accept, this case my place faced with it more than 2 years ago.

**Mr. Meas Kheang** also shared some experience here by suggestion to show the donor for real invoice and tell donor to agree on it as it is the law in our country, and if they did not agree mean that they did not compliance to our law so it make the troubles for our place, He added that we have strong evident, it is law, I recognized that before they did not agree, but right now most of the donors they compliance with our law. And he suggested that we must explain to donor about our law and those must be follow our law. Lastly he added that for withholding tax, when you apply it please see the PRAKAS or policy clearly.

**Question:**

Srey Naet from DSF, I see you showed lots of receipt hotel, but for my place we offered as package of per-diem, so how can we separate it, or no need to withholding, as in the previous forum, it is recommending to process it in package and to make it equal to the rate of government or a little bit lower, so it will be OK.so for my place I never asked for hotel receipt as we offered as package.

I am also considering on that case by providing package, I gave recommend to my place but management team is still on discussion, as they said that it will be affected to the budget of operation. But they proposed me to search on the PRAKAS on this related to the rate of accommodation, it can be equal or lower and if much more than also no problem when we set clear policy in our place. He recommends that if you do like that as package you have to change in your policy as well, and it’s good if you can do like that. He added that I am also, now talking with management team on this but it is still on the process.

**Session 3: Cambodian Financial Reporting Standard for Not-Profit-Profit Entities**

After came back from the lunch MC has announced about the speaker for the next session and at the same time facilitator also encouraged to participants to listen carefully and if they have the questions ask them to use microphone to ask so that the other participants can hear what are they asking and the answers.

First of all, speaker has announced about his profile including position, experience and background of his study and what he and his team are doing, below is the detailed information that he promoted his profile.



After introduced about his profile speaker mentioned that he has more than seventy slides but he won't present all the slide as it takes so much of time, so he will go straight to related slides and try to explain it as much as he can and if the participants have the questions he welcomes, and if he cannot answer he will try to find it more from the other sources as he could. Firstly, he checked with participants if they are all from the finance field, he mentioned that it is good that 90 percentages of participants are from the finance and accounting fields so it is easy for us to go together and understand each other well.

He mentioned that standard of accounting for NGOs in our country is rather hard as it is still young and has no any clear standard yet for our country as recently government announced on Tire 1 and it is not used yet, but now Tire 2 is coming so it is rather complicate for use in adaptation it. He added that today he has two main points to talk, firstly is focused on other laws related with Finance and Accountant, secondly, is topics related with the standard accountant for non- profit entities. He mentioned that Reality in Standard we have cash and accrual basis, but in schedule also has modified, so he added that he will try to cover all of those. He also mentioned about how to record in excel by giving the example and ask the participants to verify the recording related with Cash basis and accrual basis.

Afterward he mentioned about The required components of the Financial Report are:

- **Entity Information** explaining what the entity is and why it exists)
- **Statement of Receipts and Payments** showing cash received and paid by the entity over the year so the net cash surplus or deficit can be calculated for that financial year
- **Note to Financial report** explaining amounts shown in the Statement of Receipts and Payments as well as relevant events affecting the financial year. To make sure that participants can understand well he also giving the real practice on projector.

To enhance the user's understanding of the entity's financial performance, additional categories are listed below:

#### Operating receipts:

- a) Donations from the public
- b) Fundraising receipts
- c) Grants not directly related to service delivery
- d) Fees and subscriptions from members
- e) Donations or offerings from members;
- f) Receipts from grants or contracts for service with national or sub-national administration
- g) Receipts from grants or contracts for service with non-governmental agencies
- h) Receipts from sales to the public
- i) Receipts from sales to members
- j) Receipts from commercial activities
- k) Lease or rental receipts
- l) Interest and dividend income receipts; and
- m) Other operating receipts

Meanwhile to enhance users' understanding of the entity's financial performance. Additional categories are listed below:

**Operating payments:**

- a) Administration and overhead payments;
- b) Lease and rental payments;
- c) Affiliation fees;
- d) Interest payments; and
- e) Program/Project by activities.
- f) Other operating payments.

Afterward to enhance the recording of the participant he provided some case of grand and practice recording at the same time. the scenario is shown below:

A grant of **R 6,000,000** was made by the local council to a food bank (the reporting entity). **R2,000,000** was a contribution towards the purchase of a refrigerator for the storage of perishable items, and **R4,000,000** for buying food for distribution The agreement requires the grant to be spent as specified or be returned to the local council. At the end of the year the refrigerator had been purchased but only half the food.

**Treatment:** The reporting entity records:

- a. In the statement of receipts and payments the entire amount of the grant when received (as an operating receipt: donations, fund raising and other similar receipts).
- b. In the statement of receipts and payments, the **R2,000,000** that has been spent on the refrigerator (as a capital payment); and the **R2,000,000** spent on the food (as an operating payment: payments related to providing goods or services).
- c. In the schedule of resources in the note to financial report, the refrigerator and its purchase value (cost).
- d. In the schedule of other information in the note to financial report, the following: the total amount of the grant, the fact that a condition of the grant is that it only be used to purchase a refrigerator and buy food for distribution, and the fact that **R2,000,000** of the grant has not yet been spent on food for distribution at year end.

He also mentioned on loan forgiveness as below to the participants

- a. A government agency lends an entity **R40,000,000** to enable the entity to buy a van.  
✓ **Treatment:** The loan is recorded in the statement of receipts and payments as a capital receipt on receipt of the funds. Future repayments are recorded in the statement of receipts and payments as a capital payment as they are made, and the amount owing at each reporting date is recorded in the note to financial report.

**For more detailed of his presentation please see the appendix attached file**

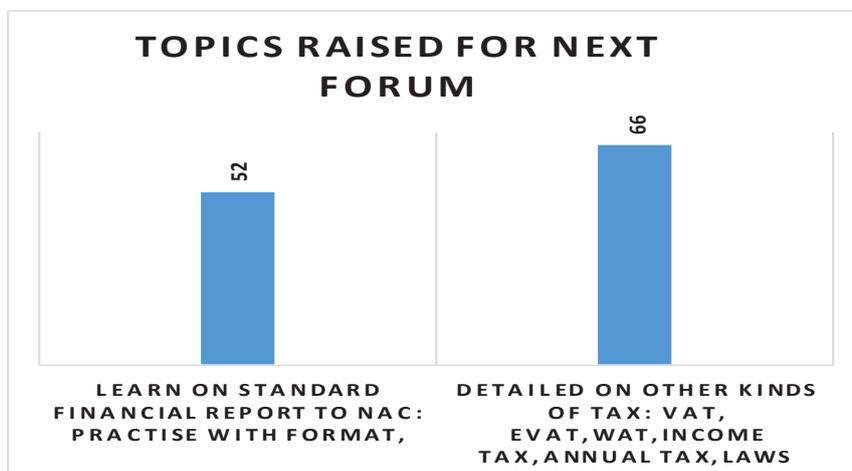
## V. Result of survey and evaluation of the learning forum

After finished the session about the financial standard for not for profit entities the facilitator has request to the participants to complete the evaluation form on what they have learnt, will be applied, need to learn more and improvement Plan as well the suggestion.



### 5.3: Topics Raised for Next Learning Forum.

Meanwhile according to the evaluation sheet from the 77 participants they mentioned on the topics that they want to learn more in detailed to make sure that they could be ready for the upcoming requirements for the standard report, so below is the topics raised by the participant as well the overall of gratification among 99 Participants for the whole forum.



### VI. Closing Remark and Conclusion of the Forum

Mr. Meas kheang, at the end of forum, was invited to have a conclusion for the forum. He mentioned that, according to the PRAKAS 006 issued in January 2019 and closing since 31<sup>st</sup> March 2019, did you know about this? They gave time to us only three months for making related document edited and submit to them, he also mentioned that until now some NGOs is still not clear about that, they said that they don't understand on it, not understand is not necessary but we have to responsible on it, and currently taxation become the hot issues more and in the last forum we got 54 questions from the participants then we tried to answer it ,but until now some of them are not answered yet as it have to answer base on the law and the interpretation of laws are also difference, so it's hard for us to response to those questions.

He also announced to the participant that on 26<sup>th</sup> August 2019, there will be a consultation workshop about TIRE 2, and speakers are from NAC, he added that they will talk related with Cash Basis and accrual Basis, so he encouraged all the participant attend in that important workshop together.

As finally, he deeply thanked to all the participants who take their valued times to attend in this forum for the whole day and he wish all the participants healthy and wealthy and successful in working and lives.

The forum has finished at 5:00pm on the same date with fruitfully and enjoy fully.

### 6.1: Support Documents



## Annex: Detailed Agenda

Time	Key Contents	Resource persons
07:30-08:20	Registration	CCC Team
08:20-08:30	National anthems Introduction to objectives of learning forum, and General announcements	<b>Mr. In Sithy,</b> Learning Specialist, CCC
08:30-08:50	Welcome and Opening Remarks	<b>Ms. Sin Putheary</b> Head Of Communication, CCC
08:50-09:20	<b>Session1:</b> - Review last learning forum topics on “Cambodian Financial Reporting Standards for Not-for-Profit Entities”	<b>Mr. Om Nareth,</b> Finance Manager, CCC
9:20-09:40	<b>Coffee Break</b>	All
09:40-12:00	<b>Session2:</b> Discussion on taxation implementation  <b>Group discussion</b> <b>Q&amp;A</b>	<b>Mr. Chhoeu Chhardaphea</b> Compliance Manager, iDE Cambodia,
12:00-01:30	<b>Lunch Break</b>	All
01:30-03:30	<b>Session 3:</b> The basic needs of Financial statement for financial reporting standard  - Case Basis - Cash Modified Basis - Accrual Basis <b>Practice exercise</b> <b>Q&amp;A</b>	<b>Mr. Nut Sam Ath</b> Partner, Business and Financial Management Consulting PCG & Partners Co., Ltd Phnom Penh, Cambodia
3:30-3:50	<b>Coffee Break</b>	All
03:50-04:30	<b>Session 3:</b> The basic needs of Financial statement for financial reporting standard (Continue)  <b>Practice exercise</b> <b>Q&amp;A</b>	<b>Mr. Nut Sam Ath</b> Partner, Business and Financial Management Consulting PCG & Partners Co., Ltd Phnom Penh, Cambodia
4:30-4:50	- General Reflection of Finance Learning Forum  - Discussion on the Next Topics	<b>Ms. Sreng Sophorn Lakhena</b>  Capacity development Assistant ,

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Time	Key Contents	Resource persons
	- Participant's Feedback	CCC
4:50-5:00	<b>Conclusion and Closing</b>	<b>Mr. Meas Kheang, FM WG Member</b>

**Note:** CCC reserves the rights to change the agenda based on the availability of the speakers and time constraints.