

**UNOFFICIAL TRANSLATION**

**National Committee to Support the Communes**

**Sub-Decree  
Commune/Sangkat Financial Management System**

Approved by  
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# **Sub-Decree Commune/Sangkat Financial Management System**

## **Chapter I General Provisions**

**Article 1 -** Pursuant to Articles 73, 79, 81, 82, and 83 of the Law on the Administration and Management of Commune/Sangkat, the purpose of the present Sub-decree is to regulate the commune/sangkat financial management system.

**Article 2-** In the context of this Sub-decree the financial management system consists of the rules and procedures relating to the following:

- 1) Commune/sangkat budget
- 2) Commune/sangkat payment and accounting system
- 3) Commune/sangkat expenditures management
- 4) Commune/sangkat durable assets
- 5) Commune/sangkat financial reporting and audit.

## **Chapter II Commune/Sangkat Budget**

### *Section 1*

#### *Commune/Sangkat Expenditures and Revenues*

**Article 3 -** The budget constitutes the legal act that appropriates and authorizes commune/sangkat revenues and expenditures on an annual basis.

The commune/sangkat fiscal year starts on January 1 and ends on December 31 of the same year.

The budget must include all commune/sangkat revenues and expenditures regardless of their origin or nature.

The commune/sangkat budget must reflect spending priorities emerging from the commune/sangkat development plan.

**Article 4 -** The commune/sangkat budget shall be formed of two sections:

- Section 1: Recurrent revenues and expenditures
- Section 2: Capital revenues and expenditures.

In each of the two sections, total expenditures must not exceed expected total revenues. Surplus in Section 1 must be used as revenue in Section 2.

Capital revenues shall not be used for financing recurrent expenditures unless otherwise permitted by specific regulations.

**Article 5** - Recurrent expenditures are classified into seven (7) categories:

- Category 1 - Salary and Allowances
- Category 2 - Administration Costs
- Category 3 - Local Services Costs
- Category 4 - Agent Functions Costs
- Category 5 - Social Intervention
- Category 6 - Economic Intervention
- Category 7 - Contingency

**Article 6** - Recurrent revenues are grouped into five (5) categories:

- Category 1 - Local Taxes Revenues
- Category 2 - Non-tax Revenues
- Category 3 - Commune/Sangkat Fund Transfer for General Administration
- Category 4 - Agent Functions Revenues
- Category 5 - Other Recurrent Revenues

**Article 7** - Capital expenditures include the following:

- Category 1 - Investment for administrative purpose
- Category 2 - Local Development Investment

**Article 8** - Capital revenues are grouped into four (4) categories:

- Category 1 - Reserve Fund as defined in article 22 below
- Category 2 - Commune/Sangkat Fund Transfer for Local Development
- Category 3 - Contribution of Residents to Local Development Investment
- Category 4 - Other Capital Revenues.

**Article 9** - The following expenditures shall be considered mandatory on the part of the commune/sangkat, and must be reflected, in priority, in the budget:

- 1) Salary and Allowances
- 2) Costs of filing and safeguarding official documents
- 3) Costs of maintaining the commune/sangkat office
- 4) Operation and maintenance costs of local infrastructure for which the commune/sangkat is responsible
- 5) Cost of the preparation of the commune/sangkat development plan
- 6) Continuation of ongoing investment projects, where necessary
- 7) Any other expenditures that may be imposed onto the commune/sangkat by national laws and regulations.

**Article 10** - Commune/sangkat revenues shall be assessed and collected in accordance with specific regulations.

Commune/sangkat expenditures shall be committed, verified, ordered for payment, paid and accounted for in accordance with the rules and procedures defined in Chapters III, IV and V of this Sub-decree.

The cost of operating and maintaining local services infrastructure shall be covered by adequate users charges and, where applicable, from agent functions revenues.

## ***Section 2*** ***Formulation and Approval of the Budget***

**Article 11** - The draft budget shall be prepared by the commune/sangkat chief, with the assistance of the Planning and Budgeting Committee, and submitted to the Commune/Sangkat council for adoption.

The commune/sangkat council shall adopt the draft budget during a public plenary meeting not later than 31 October. The council shall adopt the draft budget section by section.

**Article 12** - The commune/sangkat chief must ensure wide public participation in the budget formulation process through the following measures:

- The draft budget must be disclosed to the public at least two (2) weeks before the meeting of the commune/sangkat council
- The Planning and Budgeting Committee meetings must be open to citizens that are interested in reviewing the draft budget
- Citizens must be given the opportunity to attend the commune/sangkat council deliberation on the draft budget.
- And any other mechanisms to be established by the commune/sangkat council to promote public participation in local affairs.

**Article 13** - The commune/sangkat council chief shall submit, not later than November 5, the draft budget, as adopted by the commune/sangkat council, to the approval of the provincial/municipal governor.

The draft budget must be supported by the following documents:

- Brief report specifying the assumptions that served for establishing revenues and expenditures forecasts, as well as the degree of citizens participation in the budget formulation process
- Statement on the implementation of the ongoing budget
- Summary table of local development investments identified in the commune development plan when such plan exists.
- Minutes of the commune/sangkat council deliberations on the draft budget.

**Article 14** - The provincial/municipal governor shall perform the following compliance controls, and decide on the draft budget, not later than November 30.

The performance of compliance controls shall relate to the following:

- 1) Format of the budget and the participation of citizens in the budget formulation process
- 2) Budget equilibrium, and use of capital revenues as defined in Article 4 above
- 3) Any conditions attached to the use of the Commune/Sangkat Fund transfers

- 4) Realistic budget appropriations for mandatory expenditures
- 5) Budgeted local development investments have been identified in the commune plan when such plan exists.

The provincial/municipal governor shall have no right to alter or oppose spending choices decided by the commune/sangkat council to the extent that the draft budget complies with conformity control requirements as specified above.

**Article 15** - If the draft budget satisfies the required legality controls, as defined in Article 14 above, the provincial/municipal governor shall approve the draft budget and shall issue a written notification to the commune/sangkat chief. The notification shall be supported by a copy of the budget document bearing the official seal of the provincial/municipal administration and the initials of the provincial/municipal governor on each page of the budget document.

The provincial/municipal governor must send a copy of the notification and the approved budget to the provincial treasury, and the provincial department of economy and finance.

**Article 16** - In case the provincial/municipal governor withholds his approval of the draft budget, he must immediately notify to the commune/sangkat chief, in written, the reasons why the draft budget could not be approved, and applicable corrective measures.

The commune/sangkat chief must revise the draft budget in accordance with the observations and recommendations made by the provincial/municipal governor, and present the revised version of the draft budget to the vote of the commune/sangkat council within 15 days after receiving the governor's notification.

After deliberation of the council, the commune/sangkat chief must submit the revised draft budget to the approval of the provincial/municipal governor.

If the commune/sangkat chief fails to submit the revised draft budget to the governor within one month after receiving the governor's notification, or if the revised draft budget still does not satisfy the compliance controls, then the governor shall have the right to make the necessary adjustments before approving the draft budget. The governor shall notify his decision to the commune/sangkat chief, the provincial treasury, and the provincial department of economy and finance, in the same manner as described in Article 15 above.

In case of conflict between the commune/sangkat council and the governor, the commune/sangkat chief shall submit the case to the minister of Interior. The decision of the minister of Interior shall be final.

**Article 17** - If for whatsoever reason the governor has not approved the draft budget before January 1, the commune/sangkat chief shall be temporarily authorized to:

- Commit, each month, mandatory expenditures up to one-twelfth of their respective amounts as appropriated in the previous fiscal year

- Collect commune/sangkat revenues up to the amount appropriated in the previous fiscal year.

### ***Section 3*** ***Implementation of the Budget***

**Article 18** - The commune/sangkat budget may be amended during the fiscal year to account for changes in the economic or financial conditions that affect the initial revenue and expenditures forecasts.

**Article 19** - The draft of the amended budget shall be prepared, reviewed, adopted, and approved in accordance with the procedure defined in Articles 11, 12, 13, 14 and 15 above, subject to the provisions of this Article.

The pre-approval of the governor shall not be required if the purpose of amendment is the reallocation of resources within the same category of expenditure without altering the initial amount of that category or changing the type of investment projects included in the initial budget. In such case, the commune/sangkat chief must inform the governor, the provincial treasury and the provincial department of economy and finance of the change in the reallocation of resources, not later than 5 days after the deliberation of the commune/sangkat council.

**Article 20** - Appropriation under category “Contingency” shall not exceed 3% of the total budget. Contingency budget line can be used for covering unforeseen expenditures that have not been appropriated in the budget, or for which budgeted appropriations proved to be insufficient.

The commune/sangkat chief shall seek the commune/sangkat council’s approval before deciding on the utilization of the contingency appropriation.

**Article 21** - At the end of the fiscal year, the commune/sangkat accountant at the provincial/municipal treasury shall prepare the closing financial statements.

The accountant shall submit the draft closing financial statements to the commune/sangkat chief for reconciliation with the budget accounts. The accountant and the commune/sangkat chief shall investigate and correct any discrepancy, and agree on the reconciled closing financial statements.

The closing financial statements show the actual implementation figures of the budget as well as the commune/sangkat end-of-year cash position and durable assets.

**Article 22** - The commune/sangkat chief shall submit the draft closing financial statements to the review and adoption by the commune/sangkat council during the month of March following the ending fiscal year. After deliberation, the commune/sangkat council shall adopt by vote a “Resolution on Closing of the Budget”.

The “Resolution on Closing of the Budget” shall:

- 1) State the actual expenditures and revenues achieved during the ending fiscal year
- 2) Cancel any unused budget appropriations
- 3) Authorize the transfer of the result of the fiscal year to the “Reserve Fund Account.”

The commune/sangkat chief shall submit the “Resolution on Closing of the Budget” for the provincial/municipal governor approval, not later than seven (7) days after the commune/sangkat council deliberation. The following documents shall be attached to the Resolution:

- Copy of the closing financial statements
- Narrative activity report
- Minutes of the commune/sangkat council deliberations.

**Article 23** - The Reserve Fund shall be used only for financing capital expenditures during the following fiscal years.

### **Chapter III Commune/Sangkat Accounting and Payment System**

**Article 24** - The accounting system shall serve the following purposes:

- 1) To record all financial transactions of the commune/sangkat
- 2) To produce timely, accurate financial reports which can be subject to control and verification
- 3) To provide the basis for monitoring commune/sangkat budget implementation.

The commune/sangkat accounting shall include:

*Financial Accounting:* To measure, register, and report on commune/sangkat financial transactions

*Budgetary Accounting:* To monitor and report on the implementation of the budget.

**Article 25** - Commune/sangkat financial accounting shall be cash-based, following the double-entry recording method.

The chart of accounts shall be consistent with the commune/sangkat budget classification.

Communes/sangkats with limited financial resources or low management capacity may use the simplified chart of accounts and budget classification.

**Article 26** - The provincial/municipal treasury shall be the commune/sangkat accountant, and shall carry out the following tasks:

- 1) To collect and/or acknowledge receipt of commune/sangkat revenues.
- 2) To execute payment orders issued by the commune/sangkat chief
- 3) To handle and release commune/sangkat funds
- 4) To record commune/sangkat financial transactions in accordance with the principles specified in Article 25 above

- 5) To prepare periodic financial reports
- 6) To file and safeguard all documents supporting commune/sangkat transactions and accounting records.

**Article 27** - The commune/sangkat chief shall be the budget-authorizing officer. As such, the commune/sangkat chief shall have the power to authorize collection of revenues, commit expenditures, and order payments in accordance with the approved commune/sangkat budget.

The commune/sangkat chief may delegate, in written, his budget-authorizing power to any of his deputies. The delegate budget-authorizing officer shall act under the responsibility and control of the commune/sangkat chief.

The budget authorizing officer and his delegate must be accredited to the relevant provincial/municipal treasury accountant.

**Article 28** - The duties of authorizing expenditures, and making payments shall not be assigned to the same person, except in the cases specified in Article 31 below.

**Article 29**- Each commune/sangkat shall hold individual deposit account at the provincial/municipal treasury. The account shall be used for receiving revenues and making payments.

**Article 30** - The minister of Economy and Finance may authorize the commune/sangkat to manage all or part of its cash transactions through an account opened at a duly licensed commercial bank.

**Article 31** - The commune/sangkat shall make payments of expenditures below a certain amount through the “petty cash advance” procedure.

The commune/sangkat shall appoint a staff member of the commune/sangkat administration to be the petty cash advance manager.

The petty cash advance manager shall be accountable for the safety of funds and supporting documents, and keeping records of processed transactions. The petty cash advance manager shall perform his tasks under the joint control of the commune/sangkat chief and the commune/sangkat accountant.

**Article 32** - Responsibility for collecting non-tax revenues can be assigned to a staff member of the commune/sangkat administration, to be referred to as “the Revenue Collection Officer”.

The Revenue Collection Officer shall be appointed, and shall perform his duties in the same manner as the petty cash advance manager.

**Article 33** - The commune/sangkat chief shall ensure that the budgetary accounting system is enforced.

The budgetary accounting system shall record expenditure commitments, and payment authorizations issued by the commune/sangkat chief, for the purpose of monitoring the budget implementation.

## **Chapter IV Financial Reporting**

**Article 34** - Financial reporting shall serve the following purposes:

- 1) To monitor the commune/sangkat operation by comparing actual transactions with budget forecasts;
- 2) To evaluate the commune/sangkat financial position by providing information about the sources and uses of financial resources;
- 3) To assist in fulfilling the commune/sangkat chief's duty to be accountable to the commune/sangkat council, as well as the council's obligation to be accountable to its constituency and to higher authorities.
- 4) To reflect that transactions are consistent with the adopted budget and with other finance-related legal requirements.

**Article 35** - The commune/sangkat shall prepare the following reports:

- 1) Monthly Budget Implementation Report in the form of a "Revenues and Expenditures Statement" based on the budget classification system. The report shall compare actual achievements with budget forecasts, and show the commune/sangkat cash position.
- 2) Mid-year Budget Implementation Report in the same form as the monthly report
- 3) Annual Financial Statements, including:
  - Annual "Revenue and Expenditure Statement"
  - Reconciliation of the commune/sangkat treasury deposit account
  - Fixed Assets Statement.

The financial reports must accurately and fairly inform about the budget implementation conditions and the commune/sangkat end-of-year financial position.

**Article 36** - The annual financial statements shall be supported by the narrative report on the commune/sangkat activity. The annual activity report shall describe and evaluate:

- Commune/sangkat performance in revenue collection and expenditures;
- Commune/sangkat achievements in respect of public services provision against the planned objectives;
- Socio-economic conditions in the commune/sangkat and the impact of the commune/sangkat operations on the welfare of the citizens.

The narrative activity report shall be prepared under the responsibility of the commune/sangkat chief.

The annual financial statements and the narrative activity report shall serve as basis for closing the commune/sangkat fiscal accounts of the related period.

**Article 37** - Financial reports shall be prepared by the commune/sangkat accountant, and reconciled with the budgetary accounting records maintained by the commune/sangkat administration, not later than:

- 15 days into the subsequent month for monthly reports
- 21 July for the mid-year report
- 31 January of the following year for the annual report.

**Article 38** - The commune/sangkat chief shall endorse financial reports prepared by the accountant, and shall ensure that these reports are submitted, together with the narrative report, to the commune/sangkat council for deliberation and approval, in due time.

Following the council deliberation, the commune/sangkat chief shall:

- 1) Send the reports to the provincial/municipal governor, and to the provincial Department of Economy and Finance.
- 2) Disclose the reports to the public.

## **Chapter V**

### **Expenditure Management**

#### *Section 1*

#### *Expenditure Cycle*

**Article 39** - Expenditures must be appropriated in the commune/sangkat budget, and consistent with the laws and regulations of the Kingdom of Cambodia.

Commune/Sangkat spending process shall include the following stages:

- 1) Commitment
- 2) Verification
- 3) Payment Order
- 4) Payment.

**Article 40** - Commitment shall consist of entering into contracts or agreement for immediate purchase or future delivery of goods and services. The commitment entails for the commune/sangkat an obligation to pay if the contractor or supplier has complied with the provisions of the contract.

Prior to any expenditure commitment, the commune/sangkat chief or his authorized delegate shall ensure that:

- 1) The expenditure is proposed under the correct category
- 2) Money has been appropriated for the purpose in the budget and sufficient funds remain available in the proposed category of expenditure
- 3) The proper procurement method is followed

- 4) Expenditure is recorded as specified in Article 33 of this Sub-Decree.

Expenditure commitments shall not be subjected to pre-audit by provincial authorities or the financial controllers.

**Article 41** - For the purpose of verification, the commune/sangkat chief or his delegate shall ensure that:

- 1) Goods have been delivered or services rendered as certified in conformity with the contract or purchase order
- 2) Invoices submitted by contractors or suppliers are correct in respect of their amount and their relevance to the transaction.

**Article 42** - After completing the verification controls, the Commune/Sangkat chief shall issue a Payment Certificate:

- (1) The commune/sangkat chief shall forward the payment certificate, together with the supporting documents, to the assigned accountant at the provincial treasury, and inform the beneficiary of payment accordingly.
- (2) If the payment is made through the petty cash fund, it shall be in accordance with the established rules.

**Article 43** - The commune/sangkat accountant shall process the payment to the beneficiary designated in the payment certificate, or his/her duly authorized representative.

Prior to payment, the accountant shall have to check and confirm that:

- 1) Payment is requested by the qualified budget authorising officer
- 2) Where applicable, a competent person has certified that goods have been received or that services have been rendered as expected
- 3) The invoice and any other supporting documents are correct and suitable for payment
- 4) The creditor is correctly identified
- 5) Payment is requested under the correct expenditure category, and sufficient funds are available in that category
- 6) The position of the commune/sangkat deposit account covers the payment
- 7) The payment discharges the commune/sangkat from any further claim relating to the same debt.

If any of the above-mentioned conditions is not fulfilled, the accountant shall have the right to suspend the payment, and notify in written the commune/sangkat chief the reasons for suspending the payment and the proposed corrective measures.

**Article 44** - In the event of payment issues, the commune/sangkat chief and the accountant shall discuss in good faith and agree on how to address any matter relating to the payment process in accordance with the established rules and procedures. If no agreement is reached, the commune/sangkat chief shall submit the matter to the provincial/municipal governor for arbitration. The decision of the governor shall be final,

and binding on both parties. Copy of the decision shall be added to the documents supporting the payment.

## ***Section 2*** ***Procurement Rules***

**Article 45** - Procurement of works, goods and services shall be consistent with the general principles specified in the Anukret No 60-95 dated 31 July 1995.

**Article 46** - The commune/sangkat chief shall establish a Procurement Committee in charge of the following tasks:

- 1) Evaluation of contractor or supplier bids
- 2) Recommending award of contracts.

The procurement committee shall ensure that:

- Procurement of goods, services and works is carried over in the most transparent, most economical way possible
- Suppliers and contractors are given adequate opportunity to participate in the supply of goods or services under the same conditions
- The result of the bidding is made public.

**Article 47** - The Procurement Committee shall be composed of the following:

- The commune/sangkat chief or his authorized delegate: Chairperson
- Two (2) members of the commune/sangkat council: Members
- The Commune/Sangkat clerk: Secretary of the Committee

The chairperson of the Procurement Committee may invite other persons to serve as assistant or observer to the Committee.

During the deliberations of the procurement committee the assistant, the secretary and the observers shall not have the right to vote.

The committee shall decide by majority vote. In the event of equal votes, the Chairperson's vote shall prevail.

**Article 48** - The final decision on awarding the contract shall be the responsibility of the commune/sangkat chief based on the procurement committee's recommendation.

## **Chapter VI** **Commune/sangkat Durable Assets**

**Article 49** - Commune/sangkat durable assets shall include three types:

- 1) Assets assigned by the central government to the commune/sangkat
- 2) Assets acquired by the commune/sangkat
- 3) Assets donated to the commune/sangkat.

**Article 50** - The commune/sangkat shall maintain separate registers of the three categories of assets mentioned in the previous Article, including, for each asset, at least the following information:

- 1) Code
- 2) Serial number where applicable
- 3) Date of acquisition by, or assignment to, the commune/sangkat
- 4) Quantity and value
- 5) Location where the asset is being kept or used.

The commune/sangkat chief shall ensure that Assets Registers are properly maintained.

**Article 51** - Commune/sangkat movable assets must be marked by a numerical code so that each item can be identified, located, and traced back to the asset registers.

The commune/sangkat chief shall set up a committee to complete at least one annual physical count of the commune/sangkat durable assets in order to identify losses, correct any recording errors, and assess the physical condition of assets with respect to repairs, maintenance or replacement.

The result of physical inventory must be reconciled with the asset registers; any discrepancy must be investigated, and if necessary, the registers updated accordingly.

A summary of durable assets registers and the physical inventory report must be attached to the commune/sangkat annual financial statements.

**Article 52** - Pursuant to Article 81 of the Commune/Sangkat Administration and Management Law, the commune/sangkat shall have no right to sell or transfer the ownership or the use of assets assigned by the central government without the prior approval of the minister of Economy and Finance, following the agreement of the minister of Interior.

**Article 53** - The commune/sangkat shall have the right to sell, or transfer the ownership or the use of assets previously acquired out of commune/sangkat revenues.

Sale, or transfer of the ownership or use of assets shall comply with the following procedure:

- 1) The commune/sangkat chief shall form an “ad hoc committee” to oversee the sale or transfer of the concerned asset. The committee, chaired by the commune/sangkat chief, shall include one councillor, and the commune/sangkat accountant. The commune/sangkat clerk shall be the committee secretary.
- 2) The sale or transfer process must be transparent, and open to competitive tenders.
- 3) The commune/sangkat council shall decide on the sale or transfer based on recommendation made by the ad hoc committee.
- 4) The sale or transfer proceeds must be deposited in the commune/sangkat account at the provincial treasury.

**Article 54** - The sale or transfer of the ownership or the use of donated assets shall be in accordance with any conditions specified in the grant agreement between the Commune/Sangkat and the donor. In the absence of such conditions, the provision of Article 52 shall apply.

## **Chapter VII**

### **Audit of Commune/Sangkat Accounts and Operations**

**Article 55** - The commune/sangkat chief shall ensure that the internal control mechanisms embodied in the management system are enforced, so that:

- Resources are used in accordance with the approved budget, within the limits of laws and regulations;
- Resources are safeguarded against waste, loss, and misuse; and
- Reliable financial data are produced, and fairly disclosed in reports.

**Article 56**- Commune/sangkat annual financial statements shall be subjected to audit by authorized institutions.

The purpose of audit is to ascertain the reliability and fairness of financial information, evaluate the commune/sangkat fiscal performance, and assess management systems and procedures. The audit report, including the commune/sangkat council comments, shall be disclosed to the public.

**Article 57** - Commune/Sangkat accounts and operations may be audited by national institutions, or by independent non-government auditors as it may be required by external contributors to the commune/sangkat finances.

**Article 58** - The provincial/municipal governor shall ensure that consultative audit is provided to commune/sangkat on a regular basis, in the form of technical assistance and capacity building in financial and operations management.

**Article 59** - Citizens of the Commune/Sangkat shall have the right to monitor the performance of the commune/sangkat council and administration.

To this end, the commune/sangkat chief shall ensure that:

- 1) Information on the commune/sangkat activities and accounts are regularly disclosed to the public
- 2) Public hearings and consultations are held during the budgeting process,
- 3) Citizens are encouraged to attend commune/sangkat council meetings.

## **Chapter VIII**

### **Penalty Provisions**

**Article 60** - The commune/ sangkat chief, in his quality as budget authorizing officer, the commune/sangkat accountant, and in general all persons involved in the budget

implementation process shall be legally liable for the following acts:

- 1) Any undertaking that may result in committing expenditures in excess of authorised appropriations
- 2) Any act that increases the amount of the authorised appropriation through a specific resource that is not consistent with the laws and regulations.
- 3) Any act that proves to be detrimental to the commune/sangkat finances or property.

## **Chapter IX Final Provisions**

**Article 61** - The minister of Economy and Finance, in consultation with the minister of Interior, shall issue guidelines on the implementation of the provisions of chapters II to VII of this sub-decree.

**Article 62-** Any provision, which is contrary to this Sub-Decree, shall be repealed.

**Article 63-** The Minister for the Council of Ministers, Ministers, Secretaries of State, concerned agencies, Governors, Commune/Sangkat Councils, and Commune/Sangkat chiefs shall implement this Sub-Decree upon signature.