



**The Royal Government of Cambodia
National Committee to Support Commune/Sangkat**

**Training Manual
on
The Commune/Sangkat
Financial Management
System Refresher**

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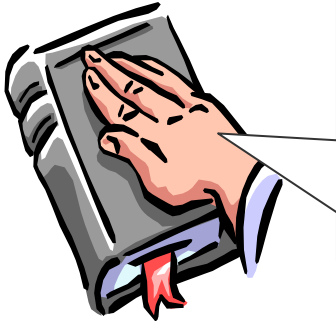
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Module 1 Overview of C/S Financial Management System

1.1. Introduction



The chapter 7 of C/S administration and management law stated that *C/S must have its own resources, budget and asset. C/S have right to collect direct revenues from fiscal taxes, non-fiscal taxes and other service charges. C/S are entitled to the appropriation resources from the national revenues for its budget. C/S is entitled to receive fees when performing agency function representing the State*

- Thus, C/S should take responsible for managing their financial resources, budget and assets to make sure that these resources have been used in efficiency, transparency way and make public.
- In order to newly elected Commune Councils have ability and appropriate capacity in managing their finance resources properly, in April 2002, NCSC has organized and conducted training on C/S financial management system for all commune councilors. However, during the actual implementation of this system, the councilors have faced with many difficulties. Thus, the refresher training on this system has to be conducted for C/S, especially for councilors who have direct role and responsibility on C/S financial management
- This module will review the overview of C/S financial management system in order C/S get more clearer understanding and enable to improve their financial management. This module will review on: C/S income sources; C/S fund; C/S budget; C/S payment and accounting system; C/S procurement and C/S financial reporting system. The following modules will describe and explain more in detail and will give also the real example as well

1.2. Commune/Sangkat Income Sources



There are 3 major sources of Commune/Sangkat income:
1- C/S Own Revenue
2- C/S Fund Income
3- Agency Function Income

1). C/S Own Revenue

- A Commune/Sangkat have right to collect direct revenues from fiscal taxes, non-fiscal taxes and other service charges.
- A separate law will establish categories, degrees, and manners in which the above fiscal taxes, non-fiscal taxes and service charges are collected. Due to this law in not established yet, the C/S could not perform this revenue collection.

2). C/S Fund Income

- C/S received this income from C/S fund that transferred from National level to each C/S. The income is divided to 2 components: Administrative and development.

3). Agency Function Income

- This income is received from taking fee during performing the tasks by C/S on behalf state that called Agency Function.

1.3. Commune/Sangkat Fund



1.3.1. Purpose

- To enable the Communes/Sangkats to undertake/assume their general responsibilities for local administration and promotion of local development.
- To reduce differences in the relative potential of the Communes/Sangkats to mobilize their own revenue, because of different demographic, social and economic conditions and.
- To act as an incentive for building the capacity for good governance of the Communes/Sangkats Councils.

1.3.2. Composition of Commune/Sanfkat Fund

The total resources of the Fund shall be divided to two components:

- General Administration Component
- Local Development Component

☞ The general administration expenditures are recurrent and investment expenditures incurred by the Councils in the performance of their general administrative duties.

☞ The local Development expenditures are recurrent and investment expenditures incurred by the Council for the development of local infrastructures (with the exception of administrative facilities) and the delivery of local economic and social (but not administrative) services.

☞ The use of C/S fund for expenditure of these components shall include in C/S budget plan in prior.

1.3.3. Process of Transferring of Commune/Sangkat Fund

a). Commune/Sangkat



To receive the transfers, the Councils shall demonstrate that they have:

- ✓ Followed a process of participatory planning, budgeting and implementation and
- ✓ Completed all financial reports on the execution of their budget and their development plan,
- ✓ Mobilized beneficiaries contributions and other local resources to complement the transfers from the Fund's Local Development Component.

b). Province/municipality Governors



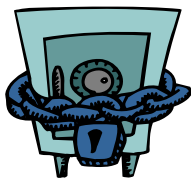
After receiving request for fund transfer from Commune/Sangkat, the provincial or municipality governor shall:

- ✓ Verify the compliance of C/S with the conditions of access to the Fund.
- ✓ Recommend to the Ministry of Interior the finalization of the transfer.

c). National Level



- ✓ After receiving recommendation from provinces/municipalities, Ministry of Interior shall prepare and issue the fund transferring order to National treasury



- ✓ National treasure transfer fund to Commune/Sangkat account at provincial/ municipality account following the transferring order issued by Ministry of Interior.

1.3.4. Commune/Sangkat Fund Transferring Procedure

The annual transfers shall be made in three installments:

- ✓ The first transfer shall be 50% of the total and shall be made not later than the 1st of March.
- ✓ The second transfer shall be 30% of the total and shall be made before the 1st of June.
- ✓ The third transfer shall be 20% of the total and shall be made before the 1st of September.

1.4. Commune/Sanfkat Budget



C/S budge is a legal document in which C/S have full right to collect/receive revenues and undertake expenditures in accordance with the budget appropriations.

1.4.1. Principles

- ✓ The budget is formulated and adopted on an annual basis The fiscal year starts on January 1 and ends on December 31.
- ✓ The budget has to match: The total budget plan for expenditure has to equal with the total budget plan of revenue.
- ✓ The C/S budget has to reflect with prioritized expenditure indicated in C/S development plan.

1.4.2. Budget Preparation



The Commune/Sangkat chief must ensure that citizens take part in the budget formulation process:

- Planning and Budgeting Committee meetings must be open to the public so that interested citizens can present their views on budget. Where feasible, the Committee must take into consideration pertinent observations and suggestions expressed by citizens.
- Commune/Sangkat chief must disclose the draft budget to the public at least two weeks before the meeting of the Commune/Sangkat council.
- Commune/Sangkat chief can establish the other mechanism to promote participation of citizen.

1.4.3. Approval of Budget

- ☞ Commune/Sangkat chief must ensure the budget preparation process in time enable Commune/Sangkat councils do discuss and adopt it before 31 October.

1.4.4. C/S budget Endorsement

- ☞ Not later than November 5, the Commune/Sangkat chief shall submit the adopted draft budget, in 5 (five) originals, to the provincial/municipal governor, together with the following documents.
- ☞ The Governor shall review and endorse the draft budget not later than 30 November.
- ☞ The Governor has no right to interfere in the revenues and expenditures choices decided by the Commune/Sangkat council to the extent that the draft budget satisfies the compliance requirements. The Governor has to delay his/her endorsement, if the process of Commune/Sangkat budget is not compliance with the requirement. In this case, the Governor has to issue the written notification to Commune/Sangkat as soon as possible with reason of delaying and recommendation for adjustment.
- ☞ Based on recommendation from Governor, the C/S chief has to revise the draft budget and then submit to Commune/Sangkat council for approval within 15 days after receiving recommendation.
- ☞ If the Commune/Sangkat chief fails to submit the revised draft budget to the Governor within one month after the Governor's notification, or if the revised draft budget still does not satisfy the required compliance controls, then the governor shall undertake to make necessary adjustments, and endorse the draft budget.
- ☞ In the event of conflict in connection with the budget approval, the Commune/Sangkat chief shall have the right to bring, in written, the case to the Minister of Interior for final decision.

1.4.5. Budget Implementation

a). Budget amendment:

The Commune/Sangkat budget may be amended during the fiscal year due to change of economic situation that impact to forecasted income and expenditure of Commune/Sangkat budget plan

b). Commune/Sangkat own revenue collection: (It will be Identified by separate law)

c). Expenditure cycle:



The Commune/Sangkat expenditure cycle is included: expenditure commitment, verification, payment order approval and make payment.

d). Report on the output of budget implementation:



Commune/Sangkat shall conduct regularly report on output and procedure of budget implementation as instruction in C/S payment and accounting guideline.

e). Closing the budget:



At the end of the fiscal year the Commune/Sangkat budget must be closed. The Commune/Sangkat accountant shall prepare the closing financial statement.



The accountant shall submit the Closing Financial Statements to the C/S chief for reconciliation with the budget control records held by C/S administration.



The accountant and the Commune/Sangkat S chief shall jointly investigate and correct any discrepancy, before the accountant sets the reconciled Closing Financial Statements, which are endorsed by the Commune/Sangkat chief.



The Commune/Sangkat chief shall ensure that the reconciled statements are produced not later than 15 February into the following year.



The Commune/Sangkat chief shall submit the Closing Financial Statements to the review and adoption by the Commune/Sangkat council, in March



After deliberation, the Commune/Sangkat council shall adopt by vote the “Budget Closing Resolution”. The Commune/Sangkat councils should to:

- ✓ State the actual expenditures and revenues achieved during the ending fiscal year.
- ✓ Cancel any unused budget appropriations.
- ✓ Where applicable, authorize the transfer of the result of the fiscal year to the “Reserve Fund Account”.



The C/S chief shall submit the Budget Closing Resolution to the Governor endorsement, not later than one week after the Commune/Sangkat council deliberation, accompanied with the following documents:

- Copy of the closing financial statements
- Narrative activity report
- Minutes of the Commune/Sangkat council deliberations

1.5. Payment and Accounting System

1.5.1. Principle

- Commune/Sangkat shall open saving account in provincial treasury.
- The Commune/Sangkat Chief is the Budget-Authorizing Officer: As such, he/she has a full right to collect/receive revenue and implement the budget and issue the payment orders to the Provincial Treasury according to the approved budget plan.
- The Commune/Sangkat chief may delegate, at his discretion and in written, his Budget-Authorizing powers to his deputies. The delegate budget-authorizing officer shall act under the responsibility and control of the Commune/Sangkat chief.
- The C/S chief and his delegate(s) must furnish their specimen of signature to the provincial/municipal treasury. In general, the Commune/Sangkat chief, delegated officer and Commune/Sangkat administrative staff are not allowed to hold the fund or make payment, except the payment made by petty cash and the revenue collected by Commune/Sangkat revenue agency.
- Provincial/Municipal treasury shall act as Commune/Sangkat accountant.

1.5.2. Payment system

a). Direct payment:

The direct payment is the payment made through provincial treasury.

b). Payment through petty cash:

- The C/S chief shall issue Deika to appoint C/S administrative staff to be a C/S Petty Cash Advance Manager. C/S shall send this Deika and spacemen signature of C/S Petty Cash Advance Manager to provincial treasury. In the transition, C/S clerk can be appointed as an C/S Petty Cash Advance Manager.
- C/S has the right to operate Petty Cash Advance. The maximum amount of Petty Cash Advance shall not exceed one-fourth (1/4) of recurrent budget expenditures minus salary and allowances and the single payment paid through petty cash advance should not exceed 200,000 Riels.
- The Petty Cash Advance should be spent for recurrent expenditure (except salary and allowance) and administrative investment.
- The C/S chief can request the replenishment of petty cash advance when the petty cash balance reaches half of the authorized amount.
- At the end of the fiscal year, C/S must return unused funds to the C/S accountant at the provincial treasury.

1.5.2. Accounting System

The C/S accounting system shall serve the following purposes:

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

The commune/Sangkat accounting shall include:

a- Financial Accounting: To measure, register, and report on commune/Sangkat financial transactions

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

a). Financial Accounting:

- Commune/Sangkat accountant has role and responsibility for implementation of Commune/Sangkat financial account.



The C/S finance account shall be in cash-based:

- ✓ The revenue should be posted to account sheet when receiving the cash
- ✓ The expenditure should be posted to accounting system when payment is made.

b). Budgetary Accounting:

- C/S chief has role and responsibility for implementation budgetary account.

The Budgetary account is to monitor and report on:

- ✓ Implementation of approved budget expenditure.
- ✓ Collection of approved revenue

1.6. Commune/Sangkat Financial Report

C/S financial report is the report on C/S revenue and expenditure. The purposes of report are:

1. To assist C/S chief in monitoring of budget implementation.
2. To assist C/S councils to evaluate the performance of C/S administration.
3. To assist citizen to know on C/S activities and income/expenditure transaction.

There are three types of C/S financial report:

- Monthly report on revenue and expenditure
- Semester report on revenue and expenditure
- Annually Financial report

1.7. Commune/Sangkat Procurement

- Procurement means hiring a contractor to implement a works contract or a service contract, or identifying a suitable supplier for goods.
- The main principles apply to the procurement process are transparent, economical way and efficiency.
- The composition of C/S procurement committee: C/S chief to is a chief; two members of the Commune Council are a member and Commune/Sangkat Clerk as secretary of committee.

1.7.1. Procurement Methods

a). Competitive Bidding



The Competitive Bidding is implemented for all the contracts and purchase orders for expenditure under:

- the **Development Component** of the budget of Commune/Sangkat fund, except petty cash expenditures of less than 200 000 Riels.
- the **Administration Component** of the budget of Commune/Sangkat fund with the cost of the contract or purchase order is more than 2 000 000 Riels.

- ☞ All 3 members of the Procurement Committee must be present when the bids are opened. In case, any member is absent, the opening of bids should be postponed. The date, time and place of the opening of bids should be set up.
- ☞ For the second time of opening of bids, there must be at least 2 Procurement Committee members are presented, one of two to be a Chief of Procurement Committee.
- ☞ There must be at least 3 bids, which are submitted from the 3 different bidders. One bidder can submit only one bid for each contract.
- ☞ Only the members of the Procurement Committee will vote to decide the results of the bidding. The Procurement Committee shall make decisions by majority vote. In the event of equal votes, the Chairperson's vote shall prevail.
- ☞ The total price of the contract written in bid form is a bid price. During the bid evaluation stage, the bidders are not allowed to change their bid price.
- ☞ Normally, contract will be provided to the bidder who bided in lowest price. If the lowest price is very low (less than the estimated price minus 15%), the Procurement Committee must ask him the reason for this. Therefore the successful bidder who bided in the appropriate price.
- ☞ If more than one bidder has bid the lowest price, the Procurement Committee must ask all the bidders who have bid that price. This price is a based price for lowering bids for the Procurement Committee to conduct procurement process again for them immediately.
- ☞ The bidders must leave the room while the Procurement Committee makes a decision. After the Procurement Committee has made its decision, all the bidders will be invited to come into the meeting room and then the Commune/Sangkat Chief must announce the result of the bidding to the meeting.

b). The Quotation



- ☞ The quotation may be used for all the contracts, which are not under the Development Activities, cost from 400 000 Riels to less than 2 000 000 Riels.
- ☞ The quotation is required at least 3 quotations from 3 different suppliers. Commune/Sangkat Chief or his delegate shall be responsible for the evaluation with the assistant of the Technical Supervisor.

c). The Direct Negotiation



The direct negotiation may be used in case:

1. The contract, which is not under Development Activities, costs less than 400 000 Riels for purchasing one time only.
2. On receiving of the agreement from Provincial/Municipal Governor. The following, there are some reasons for making a Waiver Request to the Provincial or Municipal Governor:

- Bidding process was unsuccessful implemented two times.
- There is only one or two possible works contractor or service contractor or supplier, who have the capacity to implement the contract.
- There is an emergency situation and there is no time to follow the standard procedures.
- It is a repeat order of an item previously procured through competitive bidding and it is unlikely that lower price will be obtained through other bidding.
- Works contract or service contract or purchase order is made by the government agency and another government agency.

☞ The quotation procedure and evaluation of the direct negotiation will follow the same procedure and evaluation of the quotation.

1.7.2. Payment



- ☞ The Commune/Sangkat Chief must not issue any payment to the Contractor or supplier in advance.
- ☞ The payment must be made after the goods have been delivered and works and service have been completed in accordance with the specifications and conditions of the contract or purchase order.
- ☞ Commune/Sangkat Chief or his delegate may issue the payment order to the Contractor, when the progress report for the works/service and delivery report for purchase order, showed that the conditions of payment were fulfilled.

Module 2 Commune/Sangkat Budget

2.1. Commune/Sangkat Budget Contents

Code	Budget Line	Amount	%
Recurrent Revenues			
70	Local Tax Revenues		
71	Non-Tax Revenues		
71-01	Administrative Fees		
71-02	Local Services User Charges		
71-03	Property Revenues		
72	C/S Fund Transfer – General Administration		
73	Agent Functions Revenues		
73-01	From State		
73-02	From Line Ministries		
73-03	From Provincial Authorities		
73-09	Other		
74	Miscellaneous Revenues		
Total Recurrent Revenues			
Capital Revenues			
	Recurrent Budget Surplus		
76	Reserve Fund		
77	C/S Fund Transfer - Local Development		
78	Local Contribution to local Development Investment		
79	Other Capital Revenues		
79-01	Sales of property		
79-02	Grants		
79-09	Other		
Total Capital Revenues			
Total Budget Revenues			
Recurrent Expenditures			
60	Salary and Allowances:		
60-01	Staff Wages – Administration		
60-02	Staff wages – Local Services		
60-03	Councilors Allowances		
61	Administration Costs:		
61-01	Rental Fees		
61-01	Repair & Maintenance – Administration		
61-02	Utilities (water, electricity)		
61-03	Travel & Transport		
61-04	Communication		
61-05	Office supplies		
61-06	Meetings and ceremonies		
61-07	Documentation and Information		
61-09	Other costs		

Code	Budget Line	Amount	%
62	Local Services Costs		
62-01	Repair and Maintenance		
62-02	Utilities		
62-09	Other Costs		
63	Agent Function Costs		
63-01	Mandated by the State		
63-02	From Line Ministries		
63-03	From Provincial Authorities		
63-09	Other Mandated Functions		
64	Social Intervention		
64-01	Assistance to Families		
64-02	Subsidies to Local Organizations		
65	Economic Intervention		
66	Contingency		
	Recurrent Surplus		
Total Recurrent Expenditures			
Capital Expenditures			
67	Administration Investment		
67-01	Property Purchase		
67-02	Constructions/Works		
67-03	Equipment		
67-09	Other		
68	Local Development Investment		
68-01	Materials		
68-02	Constructions/Works		
68-03	Equipment		
68-09	Other		
Total Capital Expenditures			
Total Budget Expenditures			

2.1.1. Local Tax Revenue



Revenues from local tax which are collected in their own Commune/Sangkat territory (**Code 70**).

- ☞ Pursuant Article 74 of Commune/Sangkat administration law this local tax revenues include revenues from property tax, in-movable assets tax and rental tax.
- ☞ The types, level and procedures of these taxes shall be defined law.
- ☞ In the present, Commune/Sangkat has no right to collect these taxes from people who reside in their own territory due to there have no law permitted.

Tax is a mandatory financial contribution made by citizens and businesses to finance public expenditures through the state budget.

2.1.2 Non-Tax Revenues

Non tax revenue is revenue that generated from administrative fees, local service and property rental fees of the Commune/Sangkat. (**Code 71**).

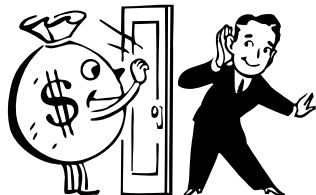
a). Administrative Fees:



Administrative fee is revenue generates from administrative documents filling which is the benefit public (**Code 71-01**).

- ☞ At the present, pursuant sub-decree 26 ANR dated 24th June 2002 Commune or Sangkat is allowed to collect revenue from implementing Civil Registration. This revenue is included into Budget Code 71-01.
- ☞ For others revenue collection from administrative fee shall be based on regulations.

b). Local Services:

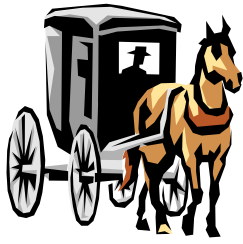


Revenue generates from people who use services provided by Commune/Sangkat (**Code 71-02**).

Examples:

- Commune/Sangkat prepares to have portable water, which supply to residents and Commune/Sangkat collect fee from them.
- Commune/Sangkat is prepares to have truck for rubbish collection and the resident have to pay monthly fee for this service.

c). **Property income:**



This revenue generate from rental of place, building, vehicle, and other equipments which are C/S's properties (**Code 71-03**).

- ➔ Beside these revenues, Commune/Sangkat may have revenues from handling of public property which are provided by the Government or any revenues generate from their own properties such as revenue from parking place, port, fishing lot, slaughter house, market rental etc.,

2.1.3. Agent Function Revenues:



These revenues generate from functioning of task by Commune/Sangkat as agent function.

- ➔ The specific amount of these revenues shall be specified by regulations, or agreements signed between the Commune/Sangkat and involved ministries and agencies.
- ➔ The ministries and agencies shall transfer this budget to Commune/Sangkat to cover implementation of function on behalf as per agreement (**Code 73**).

Example:

Commune/Sangkat performs as agent function for department of health on dinger fever program extension in their own local commune. Commune/Sangkat has to prepare and perform task at all villages in their own commune, the purpose is to disseminate on the fever dinger prevention to the residents which the comply the meaning instructed by department of health and department of health has to transfer contracted amount to Commune/Sangkat deposit account in order Commune/Sangkat makes payment all any expenditure incurred relate to this task performance as agreed.

2.1.4. Miscellaneous Revenues



These revenues are not under local tax revenues, non tax revenues and agent function revenues (**Code 74**).

2.1.5. Recurrent Budget Surplus

- If the result of differences between recurrent revenues against recurrent expenditures is **positive**, this positive result is called "**Recurrent Budget Surplus**" or "**Recurrent Surplus**".
- If the result of differences between recurrent revenues against recurrent expenditures is **zero** it means that recurrent budget has a balance between recurrent revenues with recurrent expenditures where it has **no surplus**.

Note: The differences between recurrent revenues against recurrent expenditure is **negative** it is the thing impossible



In the budget preparation stages, the recurrent surplus may be occurred in cases:

- Recurrent revenue is more than recurrent expenditures or
- Recurrent expenditure is prepared in economical manner.



The recurrent surplus to be used for financing administrative investment or development investment.

2.1.6. Budget Surplus and Reserve Fund



At the end of the fiscal year, Commune/Sangkat shall close budget account by indicate the achievement result of actual revenues and expenditures.



In case the result of differences between total revenue against total expenditures is **positive** this positive result is call "**Budget Surplus**".



This Budget Surplus shall be transferred into Reserve Fund of Commune/Sangkat (**Code 76**). Commune/Sangkat can use the serve fund only for financing capital expenditures.

Commune/Sangkat Councils may decide to use Budget Surplus:

- by amendment budget (in the next year)
- by including into budget in the any following year.



Budget surplus of each year generally composed of two sources:

- **Source # 1:** The surplus acquired from Section 1 of the budget is called "**Recurrent Budget Surplus**". At the following year Commune/Sangkat may use reserve fund of recurrent budget surplus for benefit of administrative investment or local development investment, depend on the decision of Commune/Sangkat councils.
- **Source #2:** The surplus acquired from section 2 of the budget is called "**Capital Budget Surplus**". At the following year, Commune/Sangkat may use this capital budget surplus for benefit of local development investment only except the implemented fiscal year Commune/Sangkat not yet completed payment to contractor on administrative investment expenditures just Commune/Sangkat can use necessary allocation for benefit of administrative investment to make final payment of the contract.

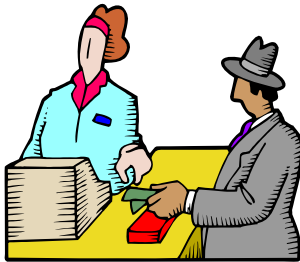
2.1.7. Other Capital Revenues



The other capital revenues are included:

- **Sale proceeds of Commune/Sangkat (Code 79-01):** generate from selling Commune or Sangkat owned properties, properties that provided and agreed by donors and properties that transferred by Government and allowed to sell by MEF and MOI.
- **Grants (Code 79-02):** the money provided by generous people providing for capital expenditures of Commune/Sangkat.
- **Other capital revenues (Code 79-09):** the revenues generate from compensation of Commune/Sangkat's damaged properties and other revenues are not under code 79-01 and 79-02.

2.1.8. Salary and Allowances



These are salaries paid to the Commune/Sangkat staff (administration and local services delivery staff), and allowances to the Commune/Sangkat councilors and to the village representatives (**Code 60**).

2.1.9. Administration Costs



Are grouped under this category all expenditures that relate to the functioning of the Commune/Sangkat administration and council such as rental fees, repair and maintenance of property, utilities, travel and transport, communication, office supplies, meetings and ceremonies costs, documentation and information costs and bank or treasury fee (**Code 61**).

2.1.10. Local Services Costs



This category includes expenditures that relate to the operation of local infrastructure which are used by the Commune/Sangkat to provide public services to the community, such as potable water or irrigation systems, social and health services, market facility.



These costs may include repair and maintenance, utilities, and any other charges necessary for the operation of the infrastructure. These costs must be covered, to the most extent possible, by user charges (**Code 62**).

2.1.11. Agent Functions Costs



These are costs incurred by the Commune/Sangkat in connection with executing tasks and functions on behalf of central government, provincial administration or any other agency.



By rule, the mandating institution must pay adequate financial compensation to the Commune/Sangkat to fully cover the actual expenditures. The nature and extent of these expenditures are discussed and agreed upon in written between the Commune/Sangkat and the concerned mandating institution (**Code 63**).

2.1.12. Social Intervention



Expenditures under this category relate to the assistance provided to poor or vulnerable families, and support of community development programs managed by local NGOs and community-based organizations, such as local education and information campaigns for women and youth, environmental protection and natural resources management and other programs impacting on the welfare of local population.



Social intervention can be granted in kind or in cash as the Commune/Sangkat council may decide. The Commune/Sangkat council must adopt transparent, objective criteria for granting social assistance (**Code 64**).

2.1.13. Economic Intervention



These costs relate to promoting economic development in the Commune/Sangkat such as support to establish local businesses, costs of organizing trade fairs and exhibitions to promote local production.



The Commune/Sangkat council must adopt transparent, objective criteria for economic intervention (**Code 65**).

2.1.14. Contingency

Allocation for contingencies must not exceed 3% of the total budget. This 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 (**Code 66**).

2.1.15. Investment for administrative purpose

Costs of the acquisition or creation of durable assets that will serve for the functioning of the Commune/Sangkat administration such as office premises, equipment and furniture for the Council's or administration's facilities, transport means (**Code 67**).

2.1.16. Local Development Investment

Costs of creation or upgrading of durable assets and infrastructure that will serve in providing public services to C/S residents such as: survey, design, construction, repair and maintenance of roads, bridges, markets, educational and health care facilities, community centres, irrigation networks and structures, agricultural storage facilities, water and power supply and other economic and infrastructure (**Code 68**).



2.2. Process of Budget

Roles and responsibilities in respect of Commune/Sangkat budgeting is as follows:

Tasks	Who is in Charge	Time Frame
Draft budget	C/S Chief (Assisted by P&B Committee)	July – 15 October
Draft Budget disclosed to the public	C/S Chief	Not later than 15 October
Adoption of Draft Budget	C/S Council	Not later than 31 October
Submission of Draft Budget to Governor	C/S Chief	5 November
Approval of Draft Budget	Governor	Not later than 30 November
Budget Implementation	C/S Chief (and Provincial Treasury)	January – December
Budget Amendment (if any)	C/S Chief and C/S Council + Approval by Governor	June-July
Budget Closing	Prepared by C/S Chief Approved by C/S Council Recognized by Governor	January-March following year

2.2.1. Draft Budget Formulation



➔ The Commune/Sangkat chief formulates the draft budget, with the assistance of his deputies, and the Planning and Budgeting Committee.

2.2.2. Adoption of Draft Budget



➔ The Commune/Sangkat chief shall call the Commune/Sangkat council for meeting to review and adopt the draft budget.

Commune/Sangkat Council will review and adopt the following documents:

- a) The draft budget document.
- b) A presentation note that highlights:
 - The economic and financial assumptions on which the draft budget is based.
 - Linkage with the Commune/Sangkat development plan.
 - Involvement of citizens.
- c) 6 months statement on the implementation of the current year budget.
- d) Any other information that the Commune/Sangkat Council deems necessary for the deliberation on the draft budget.

- ☞ The Commune/Sangkat chief must make the date and place of the Commune/Sangkat council meeting known to the public at least **two weeks** before the scheduled date of meeting.
- ☞ To the most extent possible, the Council must hold its meetings in a place that can accommodate as much as possible of people.

2.2.3. Approval of Budget

- ☞ **Not later than November 5**, the Commune/Sangkat chief shall submit the adopted draft budget, in 5 (five) originals, the provincial/municipal governor together with the following documents:

- The budget note presented at the Commune/Sangkat meeting on the assumptions for establishing revenues and expenditures forecast, and citizens participation in the budget formulation process.
- Statement on the implementation of the current year budget.
- Summary table of local development projects identified in the Commune/Sangkat investment plan.
- Minutes of the Commune/Sangkat council deliberations on the draft budget.

- ☞ **Not later than November 30**, the Governor shall review and approve the draft budget after checking that the draft budget satisfies the established compliance requirements.

2.3. Budget Amendments

- ☞ The Commune/Sangkat budget may be amended during the fiscal year at the initiative of the Commune/Sangkat chief. The amended budget shall be prepared, adopted, and approved in the same manner as the initial budget:
 - The Commune/Sangkat chief prepares and proposes the amendment to the Commune/Sangkat council
 - The Commune/Sangkat council discusses and adopts the draft amended budget
 - The Governor reviews and approves the amended budget.
- ☞ The approval of the Governor shall not be required if the purpose of amendment is the reallocation of resources among budget lines within the same category of expenditure.
- ☞ In such case, the Commune/Sangkat chief must notify in written the Governor and the provincial treasury the change in the reallocation of resources.
- ☞ The notification must be made **not later than 5 working days** after the deliberation of the Commune/Sangkat council.

The notification is accompanied:

- The amended budget document
- A brief note highlighting the changes to the initial budget and their rationale
- Minutes of the C/S council deliberations.

Note: Using the “Contingency” appropriation shall not require amending the budget.

Exercise (2.3)

Peace Commune, Stability District, Sen Monorum Province has 11 Commune Council Members and 20 villages. At the beginning February 2003, the Commune chief of Peace Commune start to prepare budget of his commune for 2003, before start to draft budget 2003, commune has collected and known the resources are available and committed for 2003 what types of expenditure which commune is going to spend for year 2003, the followings are resources and information which are available and committed:

Revenues:

- 1) Ministry of Economy and Finance has allocated budget from C/S fund in amount of 65,404,000 Riel from this amount there is Riel 15,404,000 for General Administration and 50,000,000 Riel for Local Development.
- 2) By end of January 2003, MEF has made additional allocation to this commune for covering of village chief salary from January 2003 to December 2003 (12 months) amount 5,280,000 Riel.
- 3) For year 2003, the commune chief with assistance of Planning and budget committee has forecasted that they can collect revenue from issue of birth certificate and other administrative fee in amount of 500,000 Riel.
- 4) As committed by the residents for contribution to commune project, year 2003 this commune expect to collect local contribution to the project amount 4,500,000 Riel.

Expenditures:

- 1). Allowance of councilors for 2003 (12 months)
 - Commune Chief : 100,000 Riel x 12 = 1,200,000 Riel
 - Deputy Commune Chief : 80,000 Riel x 2 x 12 = 1,920,000 Riel
 - 8 commune councilors : 70,000 Riel x 8 x 12 = 6,720,000 Riel

Total Allowance for 9 councilors: 9,840,000 Riel
- 2). Allowance for Village Chief for 2003: 22,000 Riel x 20 x 12 = 5,280,000 Riel
- 3). Cost of electricity amount 20,000 Riel /month equal to 240,000 Riel /year
- 4). Cost of water supply 10,000 Riel /month equal to 120,000 Riel /year
- 5). Cost of Office stationary 35,000 Riel /month equal to 420,000 Riel /year
- 6). Cost of travel and transportation for 2003 amount 384,000 Riel
- 7). Cost of photocopy documents for 2003 amount 250,000 Riel
- 8). Year 2003, the commune plan budget for supporting flooded victim family amount 2,500,000 Riel.
- 9). Cost of Commune Office repair and maintenance for 2003 amount 900,000 Riel.
- 10). Cost of office motorbike, equipment and furniture repair for 2003 amount 130,000 Riel.
- 11). There is plan to buy 15 chairs and one table with total cost 420,000 Riel.
- 12). Year 2003, Peace commune will implement 3 work projects as follow:
 - Rural road project: 48,000,000 Riel.
 - Wells and Latrines in primary school project: 2,210,000 Riel.
 - Literature project: 1,500,000 Riel.
- 13). CDP/CIP in amount of 3,000,000 Riel.
- 14). Contingency: 2,000,000 Riel.

Questions:

- i. Please prepare draft budget for 2003 by use format attached.
- ii. Please calculate the amount of allocated Commune/Sangkat fund.
- iii. Please calculate the amount of first petty cash advance.

Module 3 Payment and Accounting

3.1. Expenditure Cycle

There are 4 stages of expenditure cycle:

- Commitment
- Verification
- Payment Order
- Payment

3.1.1. Expenditure Commitment

a). What is a Commitment?



Commitment is the act by which the Commune/Cangkat chief issues an order to a contractor or supplier for the procurement of works, goods and services.



The order may be in any of the following forms:

- A formal contract
- Written purchase order
- Verbal purchase order (in the case of petty transactions).



Works, goods and services can be immediately received, or delivered in the future in accordance with the contractual arrangements agreed between the Commune/Sangkat chief and the supplier or contractor.



The commitment creates for the Commune/Sangkat an obligation to pay the contractor or supplier if the works, goods or services have been delivered in conformity with the specifications of the contract or purchase order.

b). Procedures



Only the Commune/Sangkat chief or his duly authorized delegate can commit expenditure. The Commune/Sangkat Chief appoints the authorized delegate

Prior to any expenditure undertaking, the Commune/Sangkat chief or his authorized delegate must verify that:

- The expenditure does not violate any laws and regulations of the Kingdom of Cambodia.
- The proposed expenditure is reflected in the budget under the proper budget line. The purpose of this control is to limit spending to the activities included in the approved budget.
- There are sufficient funds available under the concerned budget line. This information is found in the corresponding **Budget Control Sheet** in the column “**Budget Balance**”. The purpose of this verification is to avoid overspending.
- The expenditure is executed in accordance with the established procurement rules as specified in the Procurement Prakas.

Expenditure commitments are not subject to pre-authorization by the Governor, or the Ministry of Economy and Finance financial controllers

3.1.2. Expenditure Verification



Verification of expenditures takes place after the Commune or Sangkat has received the works, goods or services.



The purpose of verification is to validate the obligation of payment. The Commune or Sangkat Chief shall carry out verification of expenditures :

- To confirm whether the supplier or contractor has the right to claim the payment
- To check whether the works, goods or services have been delivered in conformity with the contract or purchase order as certified by a qualified officer.
- To verify that invoices submitted by contractors or suppliers are correct in respect of their amount, as per the agreed price.
- Invoices and bills submitted by suppliers or contractors must mention at least:
 - o Claimed amount
 - o Description of the works, goods or services
 - o Date, name, signature and address of the supplier or contractor

The qualified officer shall be:

- A Commune/Sangkat staff member (for goods and services) or
- An external Technical Assistant assigned to, or hired by, the Commune/Sangkat chief (for Works).

3.1.3. Ordering the Payment



After completing the verification, the Commune/Sangkat chief shall prepare and sign the **Payment Order** and then forwards the Payment Order to the Accountant at the Provincial Treasury, accompanied with the invoice or bill and any other supporting documents. The Commune/Sangkat must keep a copy of payment order.



The Accountant at the provincial treasury acknowledges, in written, receipt of the Payment Order. **The Commune/Sangkat must have a send/receive record book.**



The Commune/Sangkat chief notifies the reference (number, date and amount of money) of the Payment Order to the concerned beneficiary (supplier or contractor).



The Commune/Sangkat (or a Commune/Sangkat staff member assigned by the Commune/Sangkat Chief) posts expenditures, for which a Payment Order has been issued, to the corresponding **Expenditure Control Sheet (K-06)**.

3.1.4. Payment of Expenditure



Payment of Commune/Sangkat expenditure is to be made in accordance with the rules and procedures specified in the Section 3.2.

3.2. Payment Procedure

3.2.1. Payments Executed by the Provincial Treasury

a). *General Principles*

- The Provincial Treasury cannot process and execute any payment without a written request issued by the Commune/Sangkat chief or his authorized delegate in the form of a Payment Order.
- The Commune/Sangkat chief can submit payment orders to the Accountant at Provincial Treasury up to **December 31 of the concerned fiscal year.**

b). *Payment Process*

Step 1:



The accountant in charge of the Commune/Sangkat at Provincial Treasury reviews the payment order submitted by the Commune/Sangkat chief (or his authorized delegate).




The Accountant performs the following controls to check and confirm that:


- 1). The C/S chief or his delegate has signed the Payment Order. The signature on the Payment Order must be the same as the specimen deposited at the provincial treasury.
- 2). The C/S has received the works, goods or services for which the payment is requested. Confirmation of this is to be found in supporting documents submitted by CS Chief:
 - In the case of works, a *certification* signed by the technical assistant, assigned to, or hired by the CS Chief to supervise the works
 - In the case of goods or services, a *delivery report* signed by the C/S chief or a staff member from the C/S administration.

- 3). The invoice and the other documents supporting the payment order:
 - Are correct, and
 - Relate to the concerned expenditure
 - For the amount agreed in the contract or purchase order.
- 4). The beneficiary of payment (contractor or supplier) is correctly identified on the invoice and the payment order as per the contract or purchase order.
- 5). The payment is requested:
 - Under the correct budget line as per the approved budget, and
 - Sufficient funds are available in that budget line.
- 6). The balance of Commune/Sangkat deposit account covers the payment.


Step 2:

-  If the payment request satisfies all Step 1 controls, the Accountant signs the Payment Order and instructs the Treasury Cashier to execute the payment to the beneficiary identified in the Payment Order.


Step 3:

-  The Treasury Cashier executes the payment to the designated beneficiary in accordance with the provincial treasury payment rules.



Step 4:

-  If any of the conditions specified in Step 1 is not fulfilled, the accountant must:
- Withhold the payment
 - Notify in written to the Commune/Sangkat chief (i) the reasons for suspending the payment and (ii) the proposed corrective measures.


Step 5:

-  Upon receipt of the accountant's notification (step 4):
- The Commune/Sangkat chief must take the necessary action to address the reservations raised by the accountant, then
 - Reconfirm the payment request to the accountant by means of a written note stating the actions taken in respect of the accountant's reservations
 - Attach any additional supporting documents.

Step 6:

-  The accountant reviews the documents submitted by the Commune/Sangkat chief. If satisfied with the actions taken by the Commune/Sangkat, he signs the Payment order and instructs the Treasury Cashier to execute the payment.
-  If he is not satisfied with the additional information or documents, he must withhold the payment and inform the Commune/Sangkat chief accordingly.

Step 7:

-  In the event of **disagreement** at Step 6:
- The Commune/Sangkat chief and the Accountant shall meet to discuss on how to reach agreement. Any measure agreed between the C/S chief and the Accountant must be in conformity with the established rules for processing payments.

- If no agreement is reached within 5 (five) days, the C/S chief can submit the matter for arbitration to the Governor.

Step 8:

- ☞ The Governor shall decide on the matter, and inform, in written, the Commune/Sangkat chief and the provincial treasury director accordingly. The decision of the governor shall be final and binding on the Commune/Sangkat chief and the provincial treasury.

Step 9:

- ☞ The Accountant processes the Payment Order in accordance with the Governor's ruling. He must attach the governor's decision to the documents supporting the payment.

3.2.2. Petty Cash Payment Rules

- ☞ The Commune/Sangkat operates a **Petty Cash Advance**, to be established in the beginning of each fiscal year, usually after the Governor has approved the C/S budget.
- ☞ To access the initial Petty Cash Advance, the Commune/Sangkat Chief shall submit a written request to the Provincial Treasury. No other documents are required to support the request for establishing the initial Petty Cash Advance.
- ☞ The Petty Cash Advance shall be released from the Commune/Sangkat Deposit Account at the provincial treasury.
- ☞ Initially, the ceiling-amount of Petty Cash Advance shall not exceed one-fourth (1/4) of non-salary and allowances recurrent budget expenditures:
Petty Cash Advance Ceiling = (Recurrent Expenditures – Salary and Allowances) / 4
- ☞ The Commune/Sangkat chief is accountable for the proper use of the Petty Cash Advance in accordance with the established rules.

a). *Petty Cash Custodian*

- ☞ The Commune/Sangkat chief shall appoint a staff member from the Commune/Sangkat administration to be the **petty cash custodian**, (Commune Clerk) and notify, in written, his name to the provincial treasury director.

The petty cash custodian is responsible for:

- Making payments and keeping related accounting records
- Keeping funds and supporting documents in safe conditions.

- ☞ The petty cash custodian performs his tasks under the joint control of the Commune or Sangkat chief and the Commune/Sangkat accountant at the provincial treasury.

b). *Operation of Petty Cash Advance*

- ☞ To make payments the petty cash custodian must prepare, and submit for the Commune/Sangkat chief (or his delegate) authorization, a **Payment Voucher**.
- ☞ Any single payment out of the Petty Cash Advance must not exceed **200,000 Riel**.

- ☞ The petty cash custodian must enter all payment and replenishment transactions in the **Petty Cash Book**.
- ☞ When the petty cash balance reaches half or less than half of the authorized ceiling, the Commune or Sangkat chief can request the replenishment of Petty Cash Advance. The replenishment request is submitted to the accountant at the provincial/municipal treasury.
- ☞ At the end of the fiscal year, the petty cash custodian must return unused funds to the Commune/Sangkat accountant at the provincial treasury.

3.3. Accounting System

The operation of Commune/Sangkat accounting system includes the following components:

Operations	Main Purpose	Responsibility
Financial Accounting	Produce Financial Reports	Provincial Treasury
Petty Cash Accounting	Control use of petty cash advance	Commune/Sangkat administration
Budgetary Accounting	Monitor Budget Execution	Commune/Sangkat administration

3.3.1. Petty Cash Accounting:

- ☞ Accounting for the petty cash advance is the responsibility of the petty cash custodian under the control of the Commune/Sangkat chief and the Accountant at provincial treasury.

The following documents are used in accounting for petty cash transactions:

- **Petty Cash Book:** To record receipts and payments
- **Petty Cash Vouchers:** To document receipt and payment transactions
- **Petty Cash Reconciliation Sheet:** To support replenishment requests.

a). Establishment of the Petty Cash

- ☞ The provincial treasury shall release the initial cash advance to the Commune/Sangkat chief, based on a formal request signed by the Commune/Sangkat Chief.

The Petty Cash Custodian must then:

- Acknowledge receipt of funds
- Prepare a Receipt Voucher
- Record the amount received in the Cash Book

b). Payments

- ☞ The Petty Cash Custodian has to prepare a **Petty Cash Payment Voucher** for submission to the Commune/Sangkat chief approval. The voucher must be supported by proper expenditure evidence (invoice).

☞ Once the Commune/Sangkat chief has authorized the transaction (by signing the voucher) the Petty Cash Custodian shall:

- Execute the payment (remitting the funds to the payee)
- Enter the payment in the Petty Cash Book, and
- Keep supporting documents in the safe box together with the remaining money.

c). Replenishment

☞ When deemed necessary the Petty Cash Custodian must prepare, and submit for the Commune/Sangkat chief approval and signature, the following documents:

- **Payment Order** for the sum of payments
- **Petty Cash Reconciliation Sheet,**
- **Summary of Petty Expenditures** (sorted by budget line)
- **Original invoices and bills.**

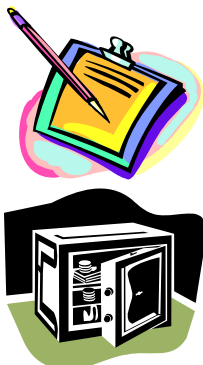
Upon approval by the Commune/Sangkat chief, the Petty Cash Custodian shall:

- Forward the documents mentioned above together with original supporting documents (vouchers, invoices) to the provincial treasury
- Enter payments into corresponding Expenditure Control Sheets.

d). Control

The following controls apply to the operation of the petty cash:

- The Commune/Sangkat chief must review, on a regular basis (and on the spot), the regularity of transactions posted to the Petty Cash Book,
- The Commune/Sangkat chief must check that cash balance (as shown in the Petty Cash Book) matches the money kept in the safe box.
- The Commune/Sangkat chief must systematically check the petty cash accounting records every time a replenishment request is submitted to the provincial treasury.
- The Accountant at Provincial Treasury must carry out, at his discretion, spot-checking of the petty cash operation, by either calling the Petty Cash Custodian to the treasury office or through field visits.



The accountant shall check and confirm that:

- o Money kept in the safe matches the cash balance shown in the cash book.
- o Transactions are properly recorded in the cash book
- o Money and accounting documents are kept in safe conditions.

3.3.2. Budgetary Accounting

a). *Purpose*

Budgetary accounting enables the Commune/Sangkat chief:

- Monitor execution of expenditures within budget appropriations
- Control collection of revenues in accordance with budget forecasts
- Compare the figure of implementation of revenues and expenditures with financial report.

b). *Procedures*



At the beginning of the fiscal year, the C/S chief shall open a new set of **Expenditure and Revenue Control Sheets** as per the established model:

- A separate sheet is assigned to each budget line.
- The approved budget are entered in the proper box of Control Sheets.



Accordingly, the **Expenditure Control Sheet** must show, for each budget line, the following information:

- Authorized budget allocation
- Actual expenditures certified for payment (for which a payment order has been sent to the accountant at provincial treasury).
- Balance of unspent allocations.



Expenditures are posted to corresponding Expenditure Control Sheets:

- Immediately after issuing the payment order (Payment through the Treasury) or
- Immediately after issuing the payment order for replenishment (Payment through the petty cash advance).



The **Revenue Control Sheet** must show for each revenue category the following information:

- Amount to be collected or received as reflected in the budget forecasts
- Received/Collected revenues
- Balance of uncollected revenues.

Revenues are posted into:

- The **Revenue Collection Book (K-08)** in the column **Receipt** when collected and in the column **Payment** when transferred to the Commune/Sangkat deposit account at the provincial treasury.
- The **Revenue Control Sheet (K-07)** based on **Deposit Slip (K-09)**.

Exercise

01	In accordance with the approved budget (in Module 2), please prepare/open Expenditure and Revenue Control Sheet.
02 14.04.03	The Commune received first fund transfer of 50 % = 35,342,000 riels in which 25,000,000 riels for development component and 10,342,000 riels for administration component. Question: Please record into Revenue Control Sheet.
03 16.04.03	The Commune Chief, Mr Sophal has directed the clerk to prepare request for petty cash advance from the provincial Treasury. Mr. Sok Choeun, who is the Commune Clerk, has been appointed as Petty Cash Custodian. Question: Please prepare first Petty Cash Withdrawal Slip.
04 18.04.03	The Commune received petty cash from the provincial treasury amount 1,361,000 riels. Question: Prepare Cash Receipts Voucher of petty cash and record into Petty Cash Book.
05 26.04.03	The commune has submitted payment order of the councilors' allowance and village chief for January, February, March and April 2003. Provincial Treasury paid to the Commune. Question: Prepare Payment Order and record into Expenditure Control Sheet Note: For the allowance and salary, the commune does not have to prepare Cash Payment and Receipt Voucher and to record into Petty Cash Book and Revenue Collection Book.
06 29.04.03	Mrs. Sok Chantha Rasmey who is the representative of people in Chres village has paid the local contribution of 300 000 riels to the commune. (Mr. Sok Cheoun, the commune clerk, is the revenue collector). Question: Prepare Cash Receipt Voucher and record into Revenue Collection Book.
07 30. 04.03	The commune has used petty cash to purchase the following items: <ul style="list-style-type: none"> • Pen 2 dozens = 32,000 riels • Book for outgoing and incoming notice 2 dozen = 24,000 riels • Writing book 1 dozen = 24,000 riels • A 4 paper 2 box = 20,000 riels • Folders 50 pieces = 10,000 riels • Paper clips 4 boxes = 4,000 riels • Calculators 2 = 8,000 riels Miss Sok Cheda who is the commune staff has purchased all these items and she got all the invoices from the bookstore. The commune chief has approved the payment. Question: Prepare Cash Payment Voucher and record into Petty Cash Book.
08 30.04.03	The commune has used petty cash of 21,000 riels for the cost of water, and 9,000 riels for the cost of electricity. (Mr. Sok Chea who provides water and electricity services came to receive the cash from the commune) Question: Prepare Cash Payment Voucher and record into Petty Cash Book.
09 01.05.03	The commune has issued payment order of 400,000 riels for the cost of purchasing a new Honda generator. The payment was made to Electric Co. Ltd and the cash payment was made at the Provincial Treasury. There were proper and sufficient documents attached (minute of receiving, invoice, contract and procedure of procurement). The Provincial Treasury paid accordance with the

	<p>Payment Order number 02/03 dated May 01, 2003.</p> <p>Question: Please record into Expenditure Control Sheet</p> <p>Note: This is an unplanned expenditure so the councilors have decided to use the budget code “unplanned budget”.</p>
10 01.05.03	<p>After receiving the books from supplier in accordance to the signed contract, the commune has issued payment order worth 500,000 riel for the purchase of books for Literacy Class. The supplier “Bona Bookshop” is on street 106 House # 15 of the provincial town. The provincial treasury paid to the Supplier.</p> <p>Question: Prepare Payment Order and record into Expenditure Control Sheet.</p>
11 03.05.03	<p>Mr. Sok Kheng, a villager, paid 1,900 riels for the fee of issuing birth certificate. Mrs. Kim Vanna, a villager, paid 1,200 riel for the fee of issuing death certification.</p> <p>Mrs. Lay Chanthy, the representative of Kes Chong village, has paid the local contribution amount 300,000 riels.</p> <p>Question: Prepare Cash Receipt Voucher and record into Revenue Collection Book.</p>
12 16.06.03	<p>The commune received the second fund transfer of 30 % = 21,205,200 riels from the Commune/Sangkat fund in which 15,000,000 riels for the development and 6,205,200 riels for general administration.</p> <p>Question: Please record into the Revenue Control Sheet.</p>
13 17.06.03	<p>The commune has transferred the money of local contribution for development and money collected from administration fee (in total = 603,100 riels) to the Provincial Treasury.</p> <p>Question:</p> <ul style="list-style-type: none"> • Prepare Cash Payment Voucher and record into Revenue Collection Book • Prepare Deposit Slip and record into the Revenue Control Sheet.
14 30.06.03	<p>The commune has issued payment order of 350,000 riels for two teachers who have signed training services contract. The cash receiver is Miss Sok Lida. The Provincial Treasury has paid in accordance with payment order number 04/03 dated 30.06.03.</p> <p>Question: Please record into the Expenditure Control Sheet.</p>
15 30.06.03	<p>The commune has issued the payment order of 24,600,000 riels for the first payment for the contract of constructing converts and bridge. The Provincial Treasury paid to the contractor, Mr. Sok Han, in accordance to the payment order number 05/03 dated 30.06.03.</p> <p>Question: Please record into the Expenditure Control Sheet.</p>
16 30.06.03	<p>The commune issued payment order of 2,520,000 riels for the allowance of councilors and village chief for May and June 2003. The Provincial Treasury has paid to Mr. Sok Choeun in accordance to the payment order number 06/03 dated 30.06.03.</p> <p>Question: Please record into the Expenditure Control Sheet.</p>
17 05.07.03	<p>The commune used petty cash of 180,000 riels to purchase document shell and chairs. The Petty Cash Custodian paid to the seller, Miss. Sok Sipa.</p> <p>Question: Prepare Cash Payment Voucher and record into the Petty Cash Book</p>
18 13.07.03	<p>The commune used petty cash of 140,000 riels to pay the cost of motorbikes petrol for the M&E focal persons, Mr. Sok Lay and Miss. Sok Leakhena, in order for them to go to the field and monitor the implementation of illiteracy training.</p> <p>Question: Prepare Cash Payment Voucher and record into the Petty Cash Book</p>

19 14.07.03	The commune has received cash of 200,000 riela from generous person, Miss Sok Phalla. The commune council decided to use this money for administration. Question: Prepare Cash Receipt Voucher and record into Revenue Collection Book.
20 18.07.03	The commune used the petty cash for 8 victim families whose houses were burned. Each family was offered 20,000 riela. Mr. Veasna, the representative of the 8 families received the money from the commune. Question: Prepare Cash Payment Voucher and record into Petty Cash Book.
21 30.07.03	The commune used petty cash to pay for the following fees: - Office stationary of 35,000 riels to Mr. Sok Ros - Water and electricity 35,000 riels and gasoline for generator 25,000 riels to Mr. Sok Chamreoun - Diesel oil/motor fuel for motorbikes used for commune administration 35,000 riels to Mr. San Maov. Question: Please prepare necessary documents.
22 31.07.03	The commune submitted the payment order for the allowance of commune councilors and village chief for the month of July. Question: Please prepare necessary documents.
23 31.07.03	The commune used the petty cash of 180,000 riels for the meeting of planning and budging committee in order to prepare commune investment plan in 2004. Cash receiver is Miss: Sok Chanda Question: Please prepare necessary documents.
24 31.07.03	The commune has issued payment order of 1,014,000 riels to clear the first petty cash advance at the Provincial Treasury and prepared request to replenish the petty cash expenditure. The Provincial Treasury has checked, approved and paid to the commune. Question: Please prepare necessary documents.

Module 4

Financial Report and Closing the Budget

4.1. Financial Reports

4.1.1. Objective of Reporting:

a). Management Purpose:

Financial Reports enable the Commune/Sangkat chief and Council:

- To assess whether the C/S resources are being used effectively, in according with the approved plan and budget; and
- When deemed necessary, make adjustments to the budget or plan of activities.

b). Accountability Purpose: Financial Reports

- Inform higher authorities and citizens on C/S activity and financial position,
- Enable them monitor C/S performance in respect of compliance with legal obligations and achievement of local development objectives.

c). Audition Purpose on the of Commune/Sangkat accounts and operations



The financial report is a focus point in auditing on the Commune/Sangkat account and operation with regard to compliance with approved budgets, and any other legal or contractual obligations.

4.1.2. Types of Financial Report



The Commune/Sangkat financial report is prepared by Commune/Sangkat Accountant.

- Monthly report
- Mid-year reporting
- Annual report

a). Monthly Reporting



The monthly financial report (**R-05**) is intended the budget implementation for a month, based on **Account Format (R-03)**, **Expenditure Control Sheet (R-07)** and **Revenue Control Sheet (R-08)**.

The Revenues and Expenditures Statement (R-05):

- The statement is structured following the budget account classification.
- It compares actual achievements with budget forecasts, for the current month and since the beginning of the fiscal year
- It informs on the Commune/Sangkat cash position.

b). Mid-year Reporting

The mid-year reporting includes (R-06) is a Revenues and Expenditures Statement for 6 months, based on monthly Revenues and Expenditures Statement.

c). Annual Reporting

Annual Financial Statements are intended to inform, with accuracy and fairness, about the budget implementation conditions and the Commune/Sangkat end-of-year financial position.

The annual financial statement consists of:

- Revenue and Expenditure Statement for the ending fiscal year (form R-06)
- Trial Balance of Commune/Sangkat accounts (form R-04)
- Deposit Account Reconciliation (R-09)
- Durable Assets Statement.

The annual financial statements must be accompanied by the narrative activity report, to be prepared under the Commune/Sangkat chief responsibility.

4.1.3. The Narrative Activity Report

The narrative activity report of commune/Sangkat is prepared and under responsibility by Commune/Sangkat chief.

The narrative activity report describes and evaluates:

- Commune/Sangkat performance in respect of the budget execution, including problems encountered in the implementation process.
- Commune/Sangkat achievements with regard to public services provision against planned objectives;
- Impact of Commune/Sangkat operations on citizens' welfare and socio-economic conditions in the Commune/Sangkat.

4.1.4. Commune/Sangkat Reconciliation



- The Commune/Sangkat Accountant shall submit the above-mentioned reports to Commune or Sangkat chief.
- The Commune/Sangkat chief shall reconcile these reports with the Expenditure control sheet and Revenue control sheet.
- The Commune/Sangkat chief approves the financial reports.

4.1.5. Endorsement of the Financial Reports

Commune/Sangkat Chief shall submit the financial and narrative reports to the Commune/Sangkat Council after reconciling with the Commune/Sangkat Accountant.

The Commune/Sangkat Council shall deliberate and approve in accordance to the agreed schedule.

4.1.6. Schedule for Preparation, Reconciliation and Approval of Reports

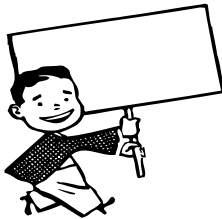
Types of Report	Endorsed by C/S chief Not later than	Adoption by C/S Council Not later than
Monthly Report	M + 7 days	M + 15 days
Mid-year Report	Before 15 July	Before 21 July
Annual Financial Statements	31 January of the following year	28 February of the following year

4.1.7. Recognition of the Financial Reports



- Commune/Sangkat Chief shall send the above-mentioned financial reports to Provincial/Municipality Governor and Provincial/Municipality Department of Economy and Finance after endorsement of Commune/Sangkat Council.
- Provincial/Municipality Governor shall check and recognize these Commune/Sangkat's reports.

4.1.8. Dissemination



- Commune/Sangkat chief shall disclose these report to the public by posting the on the notice board of Commune/Sangkat.
- Villagers can request to see the reports.

4.2. Closing the Budget



At the end of the physical year the Commune/Sangkat Budget must be closed in accordance with the procedure hereafter.

Step 1: Preparation of Inventory List of Commune/Sangkat Durable Assets

- The Commune/Sangkat Chief must complete a physical count of the Commune/Sangkat durable assets in accordance with the established rules.
- The Commune/Sangkat Chief must send copy of the inventory report to the accountant at the provincial treasury.

Step 2: Preparation of Closing Financial Statement



The Accountant shall prepare Closing Financial Statements that included:

- Revenues and Expenditures achievements as reflected in the accounting system (Revenues and Expenditures Statement)
- Commune/Sangkat end-of-year cash position as reconciled with the deposit accounts records at the provincial treasury
- Commune/Sangkat durables assets statement, as reflected in the Asset Registers, and after reconciliation with the result of the physical inventory.



The Commune/Sangkat Accountant shall submit the draft closing financial statement to Commune/Sangkat Chief.

Step 3: Reconciliation of Closing Financial Statement

- The Commune/Sangkat Chief shall reconcile the Closing Financial Statements with the budget control records.
- The Commune/Sangkat Chief and Accountant shall jointly investigate and correct any discrepancy.
- The Commune/Sangkat Chief and Accountant shall ensure that the reconciled statements are produced **not later than 15 February** into the following year.
- The Commune/Sangkat Chief shall submit the Closing Financial Statements to Commune/Sangkat Council for adoption.

Step 4: Adoption of Closing Financial Statement

☞ The Commune/Sangkat Council shall review and adoption during the month of March following the ending fiscal year.

☞ After deliberation, the Commune/Sangkat Council shall adopt by vote the “**Budget Closing Resolution**” to:

- State the actual expenditures and revenues achieved during the ending fiscal year
- Cancel any unused budget appropriations
- Where applicable, authorize the transfer of the result of the fiscal year to the “Reserve Fund Account”.

☞ The Commune/Sangkat Chief shall submit the Budget Closing Resolution to the Governor approval, **not later than 1 week after the Commune/Sangkat Council deliberation**, accompanied with the following documents:

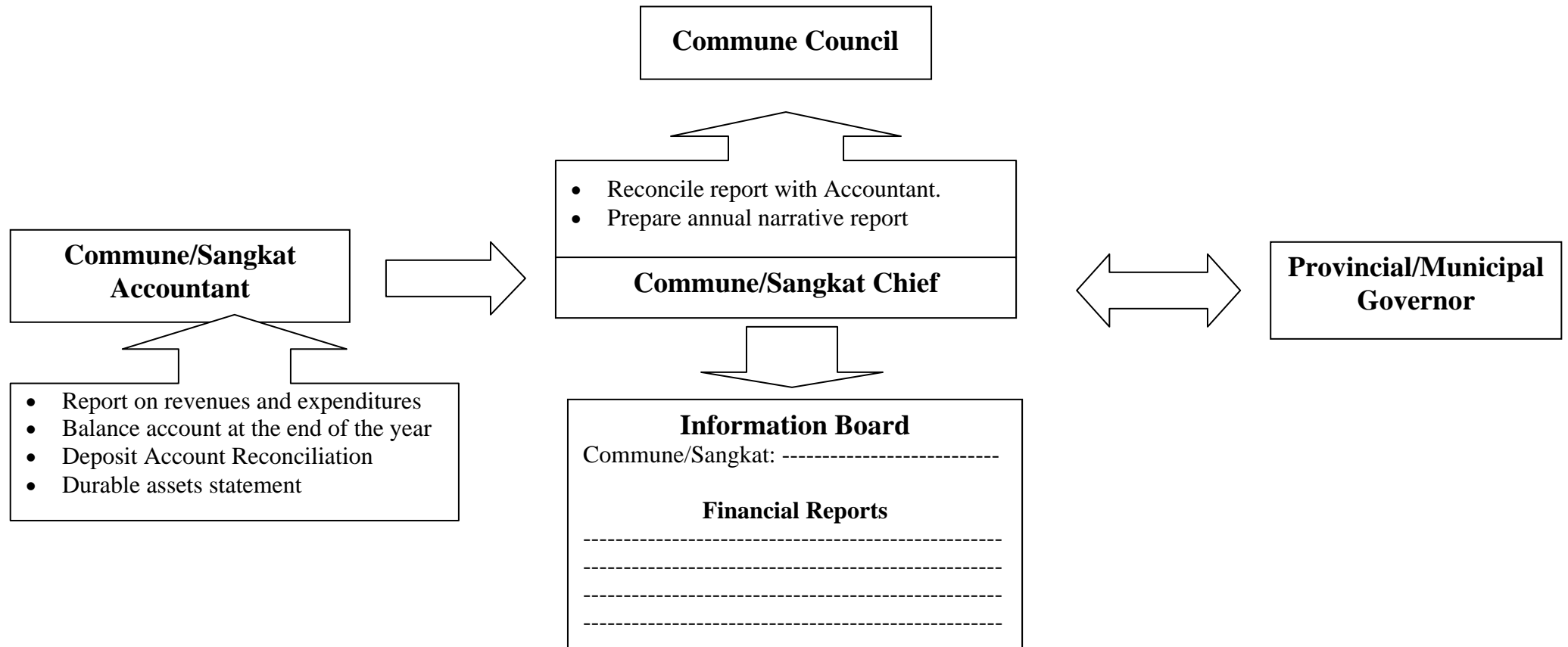
- Copy of the closing financial statements
- Narrative activity report
- Minutes of the C/S council deliberations.

Step 5: Recognition of Closing Financial Statement

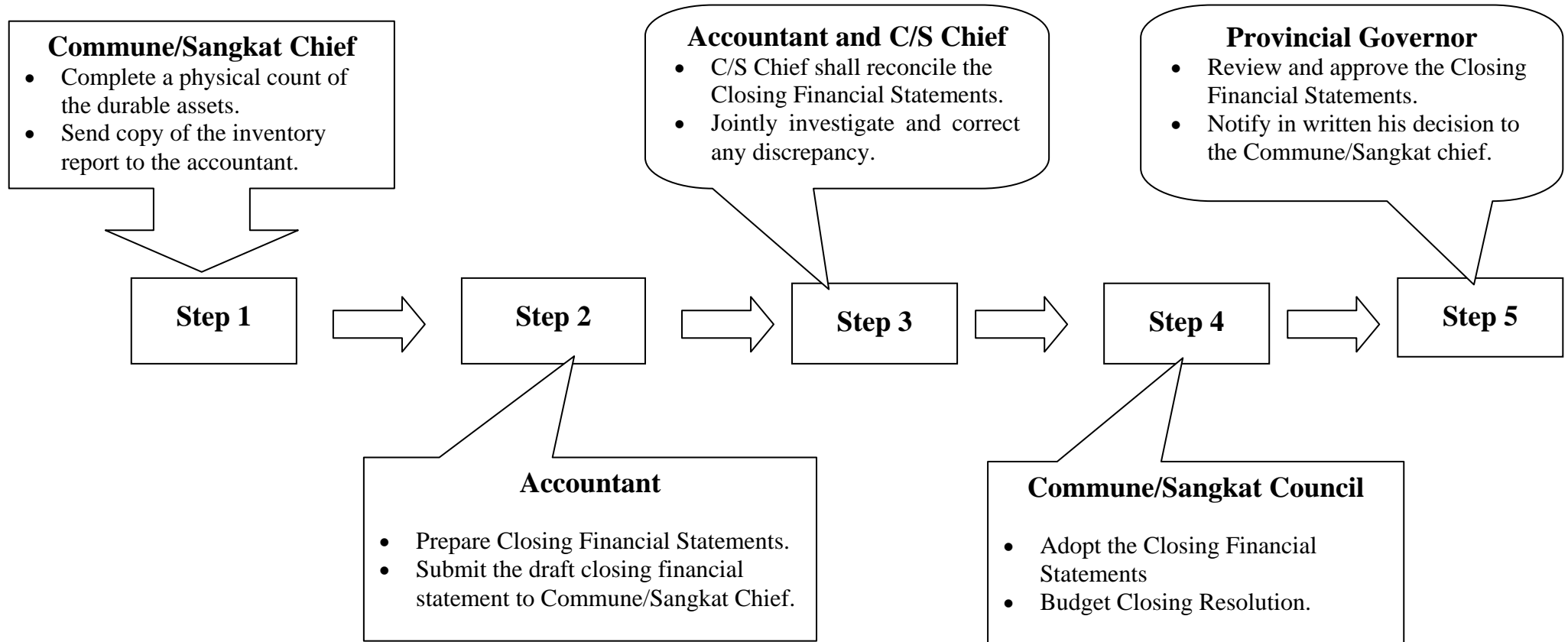


- The Provincial/Municipality Governor shall review and approve the Closing Financial Statements.
- The Provincial/Municipality Governor shall notify in written his decision to the Commune/Sangkat chief **not later than 20 (twenty) days** after receiving the Closing Budget Resolution.

Diagram on Financial Report Process



Process of Closing the Budget



Module 5

Transparency and Accountability

5.1. Transparency



Transparency means that all activities were implemented correctly in according to the procedures and made public.



Transparency assumes that the citizens have the right to information about how decisions are taken by the C/S Council and Chief and have opportunity to participate in the working process of C/S Council and Chief.

Transparency requirements relate more specifically to the following Commune/Sangkat governance areas:

- Planning-budgeting processes must be to the most extent participatory and open to the public.
- Procurement processes and decisions must be publicized (made know to the public)
- Commune/Sangkat Financial statements and activity reports must be made public
- Commune/Sangkat Council (and its committees) meetings must be open to the public.

5.2. Accountability

Accountability is the obligation, for the Commune/Sangkat council and chief, to explain their actions, to justify what they do. They have to answer to the citizenry and Authority to justify the raising of public resources and their utilization in an efficient, economical and effective manner, while operating within appropriate legal constraints.

Two mechanisms can increase accountability in the Commune/Sangkat governance system:

- Monitoring and evaluation of Commune/Sangkat performance by higher authorities and citizens
- Compliance of the Commune/Sangkat council and Chief with accounting and reporting requirements.

5.3. The Internal Control

The internal control system consists of the rules, procedures and measures intended to:

- Safeguard C/S assets from waste, fraud, and unauthorized use (rules and procedures governing budgeting, procurement, payment and asset management)
- Promote accuracy and reliability in the accounting records and financial statements (rules and procedures relating to accounting and financial reporting);
- Evaluate the effectiveness of operations that is achieving C/S development goals (rules and requirements relating to the linkage Development plan –budget- actual activities, and monitoring C/S performance)

☞ Internal control mechanisms and requirements are already built into the Commune/Sangkat administrative and financial management rules and procedures as reflected in laws, sub-decrees, prakas, and guidelines.

☞ The following are examples of internal control mechanisms as required by the financial system to ensure that CS resources are generated, budgeted, and used in a lawful, effective way:

a). With respect to revenues:

- Local revenues are generated only from sources expressly authorized by law (taxes, and central government transfers) or regulations (other revenues), and collection thereof must at all times be acknowledged properly (issuing receipts to payers), and recorded in the accounting system;
- All collected monies must be deposited intact into the C/S account at the provincial treasury. It is not allowed to retain any part of the collections or use it for cash disbursements.

b). With respect to procurement:

- Procurement of local development projects must be done through transparent competitive bidding.
- A written contract defines the obligations and rights of the CS and the contractor

c). With respect to disbursements:

- No money can be paid out of the CS account at the provincial treasury except in pursuance of an expenditure appropriated in the approved budget;
- No payment can be processed by the provincial treasury without the prior certification and approval by the CS chief;
- No payment can be issued to suppliers/contractors without the certification that the goods have been delivered or the services rendered in accordance with the contract (or purchase order) conditions.
- The accountant at the provincial treasury must certify the availability of funds under the proper budget line;
- Except in the case of petty cash fund, disbursements must be made through direct payment by the provincial treasury
- All disbursements must be properly and timely reflected in the accounting books.

Effective internal control requires, therefore, that:

- (i). Roles and responsibilities of all persons and agencies involved in C/S governance (C/S Council, C/S chief, Accountant at the provincial treasury, C/S staff, provincial support and monitoring agencies) are clearly established and understood;
- (ii). All persons and agencies involved in the administration of Commune/Sangkat comply with applicable laws, rules and regulations, while maintaining cooperative relations in fulfilling their respective duties,
- (iii). C/S resources are planned and appropriated in annual budgets;
- (iv). C/S resources are safeguarded against wastage, loss, or unauthorized use. That is, resources are deployed in the most economical and effective manner and in such a way as to attain the development goals of the C/S; and
- (v). C/S financial transactions are properly recorded, and disclosed in reliable, accurate and timely reports.

5.4. Independent Audit

5.4.1. Importance of External Audit

- Local good governance implies that those officials responsible for handling public money are held fully accountable for the use of that money.
- The prime responsibility for ensuring that public money is handled with absolute integrity and spent wisely, rests with the elected C/S council, and the C/S Chief and his staff.
- Audit is an important link in that chain of accountability: It strengthens accountability, both upwards to the national authorities (through the governor) who provide resources, and outwards to the local electorates (citizens). It is recognized that regular audit is an important way of establishing public confidence that public money is being properly spent.

5.4.2. The Objective of Audit

The objective of independent audit is:

- To ascertain that the information included in the annual financial statements are correct, reliable, and present a **true and fair** description of the C/S financial position;
- To evaluate the C/S fiscal performance; that is, to assess C/S achievement in respect of spending and revenue collection targets as reflected in the annual budget;
- To assess the C/S management systems and procedures; that is, to review and evaluate the C/S internal control system as prescribed in the established management rules, regulations and processes.

5.4.3. Auditing Authority

- As per the provisions of the Law on Audit, the National Audit Authority (NAA) is responsible for the external audit of Communes/Sangkats.
- Prior to finalizing their report, the auditors are required to seek the comments of the C/S Chief on the audit findings and assessments. Any comments expressed by the C/S Chief must be mentioned in the final audit report.

The auditors shall then forward the audit report to:

- The Governor
- The concerned C/S Council
- The Ministry of Economy and Finance (Department of Local Finance)
- And any other recipients as per the obligations of the auditing agency.



Regular Check



No Corruption

Annex 1: Financial Report Forms

Form "K-01"

Fiscal Year 200.....	Payment Order	No:.....
Name of C/S: Code of C/S:	District:	Province:
Budget Code	Amounts	Purpose of Payment-Name of Voucher
Name and Address of Beneficiary		Payment: <input type="checkbox"/> Transfer <input type="checkbox"/> in cash Account No: Name and Address of Treasury/Bank:
Amount in Word:		
Signature and Stamp of C/S chief:		
		Date:

Accountant Only	
Amount of Payment order:.....R	Approved for payment
Amount of reject:.....R	Signature and Stamp
Amount to pay:.....R	Date:

Name of C/S: Code of C/S:	Payment Order No:	Date:.....
Amount of Payment order:.....R	Purpose of Payment:	
Amount of reject:.....R		
Amount to pay:.....R		
Amount in Word:		
Name and Address of Beneficiary	Payment: <input type="checkbox"/> Transfer <input type="checkbox"/> in cash Account No: Name and Address of Treasury/Bank:	
Beneficiary	Accountant of Provincial Treasury: Approved for payment:	
Date:	Date:	

Form “K-03”

Commune:	Cash Payment Voucher	No:
	Date:	
Paid to:	Unit:	<u>Amount</u>
Amount in Word:
Purpose of Payment:		
Record in Budget Code:		
Supporting Documents:		
Commune Chief	Payer	Received, Date: Payee

Form “K-04”

Commune:	Cash Receipt Voucher	No:
	Date:	
Received from:	Unit:	<u>Amount</u>
Amount in Word:
Purpose of Receipt:		
Record in Budget Code:		
Supporting Documents:		
Commune Chief	Payee	Paid, Date: Payer

Form “K-05”

Province:
 District:
 Commune:

Petty Cash Reconciliation

From to

1	Opening Petty Cash Fund Balance	
2	Petty Cash Fund Received	
3	Total (1 + 2)	
4	Total Paid Expenditure (as issued payment order)	
5	Balance of Petty Cash Fund (3 – 4)	
6	Other Explanations:	

..... Date:

Chief of Provincial Treasury

Commune Chief

..... Date:

Petty Cash Custodian

Form “K-09”**Kingdom of Cambodia
Nation Religious King**

Province:.....
 District:.....
 Commune:.....
 No:

Deposit Slip**Account**

Debit:
 Credit:

 Transfer Cash

Name and Address of Depositor:

Unit of Depositor:

Request Provincial Treasury of Withdraw from Account #

Transfer into Revenue Budget of Commune has code:

No	Descriptions	Code	Amount	Other
1	Tax Revenue	70		
2	Non Tax Revenue	71		
3	Agent Function Revenue	73		
4	Other Recurrent Revenue	74		
5	Local Contribution Revenue	78		
6	Other Capital Revenue	79		
Total				

Amount in Word:

Date:

Date:

**Provincial Treasury
Director****Controller****Cashier****Commune Chief****Revenue Collector**

Form “K-10”

**Kingdom of Cambodia
Nation Religious King**

Province:.....
District:.....
Commune:.....
No:

Petty Cash Withdrawal Slip

Date:

I would like to request the Director of Provincial Treasury to withdraw from our Deposit Account which has account number 425 at the Provincial Treasury of for Mr./Miss Function ID card or Mission later number Dated Issued by Amount of requested for withdrawal In world

Approved by

Amount
In word.....
Date

**Director of
Provincial Treasury**

**Chief of
Accountant**

Reviewed by

Balance of Account # 425.....
Amount
In word
Others.....

Accountant

Commune Chief

Form “R-05”Kingdom of Cambodia
Nation Religion King

Province:.....

District:.....

Commune/Sangkat Monthly Revenues and Expenditures Statement

Commune:.....

Date:.....

No	Types of C/S Budget	Code	Budget	Pervious	This Period	Cumulated	Balance	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7=5+6)	(8=4 -7)	(9)
Revenues								
1	Local Taxes	70						
2	Non Tax Revenues	71						
3	C/S Fund Transfer for Administration	72						
4	Agent Function Revenues	73						
5	Other Recurrent Revenues	74						
6	Reserve Fund Transfer	76						
7	C/S Fund Transfer for Development	77						
8	Local Contribution to Investment Cost	78						
9	Other Capital Revenues	79						
	Total Revenues							
Expenditures								
1	Salary and Allowance	60						
2	General Administration Costs	61						
3	Local Service Costs	62						
4	Agent Function Costs	63						
5	Social Intervention	64						
6	Economic Intervention	65						
7	Contingency	66						
8	Administration Investment	67						
9	Local Development Investment	68						
	Materials	68-01						

No	Types of C/S Budget	Code	Budget	Pervious	This Period	Cumulated	Balance	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7=5+6)	(8=4 -7)	(9)
	Construction/Works	68-02						
	Contract 1: Name and Code	68-02-01						
	Contract 2: Name and Code	68-02-02						
	Contract 3: Name and Code	68-02-03						
	Contract 4: Name and Code	68-02-04						
						
	Equipments	68-03						
	Others	68-09						
	Total Expenditures							

Cash Position	
1	Opening Cash Balance
2	Revenues – Expenditures
3	Closing Cash Balance
	Treasury Deposit Account
	Petty Cash

Commune/Sangkat Chief

Director of Provincial Treasury

Controller

Date:.....
Prepared By:.....

Form ‘R-06’Kingdom of Cambodia
Nation Religion King

Province:.....

District:.....

Commune/Sangkat Mid Year Revenues and Expenditures Statement

Commune:.....

Date:.....

No	Types of C/S Budget	Code	Budget	Pervious	This Period	Cumulated	Balance	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7=5+6)	(8=4 -7)	(9)
Revenues								
1	Local Taxes	70						
2	Non Tax Revenues	71						
3	C/S Fund Transfer for Administration	72						
4	Agent Function Revenues	73						
5	Other Recurrent Revenues	74						
6	Reserve Fund Transfer	76						
7	C/S Fund Transfer for Development	77						
8	Local Contribution to Investment Cost	78						
9	Other Capital Revenues	79						
	Total Revenues							
Expenditures								
1	Salary and Allowance	60						
2	General Administration Costs	61						
3	Local Service Costs	62						
4	Agent Function Costs	63						
5	Social Intervention	64						
6	Economic Intervention	65						
7	Contingency	66						
8	Administration Investment	67						
9	Local Development Investment	68						
	Materials	68-01						

No	Types of C/S Budget	Code	Budget	Pervious	This Period	Cumulated	Balance	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7=5+6)	(8=4 -7)	(9)
	Construction/Works	68-02						
	Contract 1: Name and Code	68-02-01						
	Contract 2: Name and Code	68-02-02						
	Contract 3: Name and Code	68-02-03						
	Contract 4: Name and Code	68-02-04						
						
	Equipments	68-03						
	Others	68-09						
	Total Expenditures							

Cash Position	
1	Opening Cash Balance
2	Revenues – Expenditures
3	Closing Cash Balance
	Treasury Deposit Account
	Petty Cash

Commune/Sangkat Chief

Director of Provincial Treasury

Controller

Date:.....
Prepared By:.....

Form “R-09”

Province:

Commune Name: **Deposit Account Reconciliation**

Deposit Account Number:.....

Date:.....

Commune/Sangkat Accounting Records		
1	Opening Balance	
2	Receipts	
3	Sub-Total (1 + 2)	
4	Payments	
5	Closing Balance (3 – 4)	
Treasury Statement		
6	Closing Balance (3 – 4)	
Justification of Discrepancy Between Line 5 and 6		

Director of Provincial Treasury

Controller

Date:.....
Prepared by:.....

Form “R-10”

Province:
 Commune Name:
 Deposit Account Number:

Contract Monitoring Sheet

Contract Details						Payments							
Project Title Description Starting and Ending Date	ID of Contractor	Name and Address of Contractor	Signature Date	Initial Budget Allocation	Revised Allocation	Types of Payments	PV #	Payment Order Date	Date of Contractor's Invoice	Payment Order Number	Amount Paid	Cumulated	Balance
						Petty Cash							
						Payment # 1							
						Payment # 2							
						Payment # 3							
						Last Payment							
						Retention							
						Reserve for Delayed of Payment							
						Petty Cash							
						Payment # 1							
						Payment # 2							
						Payment # 3							
						Last Payment							
						Retention							
						Reserve for Delayed of Payment							