

TO BE KNOWN AS THE DECREE ON LOCAL FISCAL ADMINISTRATION

PRESIDENTIAL DECREE NO. 477, June 03, 1974

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WHEREAS, the recent enactment of the Local Tax Code, the Real Property Tax Code and other revenue measures has provided the local governments with additional sources of income that will stabilize and bolster their financial capacity to contribute to the collective efforts for national growth;

WHEREAS, in the past, local government funds have been either wasted or dissipated for lack of sound financial plans and adequate fiscal controls;

WHEREAS, the proper and efficient utilization of available local resources is crucial to the early realization of primary developmental goals and objectives;

WHEREAS, there is a pressing need to strengthen the administrative machinery for local treasury operations in order to induce the judicious conservation and management the judicious conservation and management of local government resources;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution do hereby adopt, promulgate and decree as part of the law of the land, this Decree, the full text of which follows:

CHAPTER I. GENERAL PROVISIONS

SECTION 1. Scope.—This Decree shall govern the conduct and management of the financial affairs, transactions, and operations of provinces, cities, municipalities and barrios, and shall provide the organization for local fiscal administration in the local governments.

SEC. 2. Fundamental Principles.—Local government financial affairs, transactions, and operations shall be governed by the fundamental principles set forth hereunder.

- No money shall be paid out of the treasury except in pursuance of a lawful appropriation or other specific statutory authority.
- Public funds and monies shall be spent solely for public purposes.
- Revenue is obtainable only from sources expressly authorized by law and collection thereof shall at all times be acknowledged properly.
- All monies officially received by a public officer in any capacity or upon any occasion shall be accounted for as government funds, except as may otherwise be specifically provided by law or competent authority.
- Trust funds shall not be paid out of the treasury except in fulfillment of the purpose for which the trust was created or fund received.

- Every officer of the government whose duties permit or require the possession or custody of government funds shall be properly bonded and such officer shall be accountable and responsible for said funds and for the safekeeping thereof in conformity with the provisions of law.
- Local governments shall formulate sound financial plans and the local budgets shall, by and large, be based on functions, activities, and projects, in terms of expected results.
- Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions and operations of the local governments.

SEC. 3. Supervisory authority of the Department of Finance.—The Department of Finance shall exercise general supervision over the financial affairs of the local governments and, except as otherwise specifically provided by law, over all funds the investment of which is authorized by law. For the purpose, and along with the powers, duties and functions vested upon it by law, it shall be the responsibility of the Department to:

- Formulate and execute fiscal policies that will promote the financial stability and growth of the local governments;
- Provide the local governments with policy guidelines in the preparation and adoption of sound financial plans and review the local budgets in order to enhance the maximum utilization of local funds and resources;
- Adopt and enforce the necessary measures that will improve local treasury operations and foster effective financial management at the local levels; and
- Ensure the proper use, custody and safekeeping of public funds in the local governments. In order to attain the foregoing objectives, the Secretary of Finance shall exercise direct executive supervision over all treasury officials and personnel in the local governments.

CHAPTER II. THE LOCAL FUNDS AND OTHEE SPECIAL FUNDS

ARTICLE I. Initial Receipt and Disposition, Composition and Safekeeping

SEC. 4. Definition of "Fund."—A fund is a sum of money or other resources set aside for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations and constituting an independent fiscal and accounting entity.

SEC. 5. Accounting for Monies Received by Public Officers.—Except as otherwise specifically provided, all monies received by a public officer shall be accounted for as Government Funds.

SEC. 6. Payment of Government Monies into the Treasury.—Officers of the government authorized to receive and collect monies arising from taxes, revenues, or receipts of any land shall remit the full amounts as received and collected by them into the treasury of the branch of the Government to which such officers in their collecting capacity respectively pertain, to the credit of the particular account or accounts to which the monies in question initially belong. The amount of such collections ultimately payable to other branches of the Government, shall thereafter be transferred to the respective treasuries of those branches, under regulations which the Commission on Audit shall prescribe.

SEC. 7. The Local Funds.—Provincial, city and municipal governments shall maintain only two local funds, namely, the general fund and the infrastructure fund and they shall be used to account for such monies and resources as may be received in and disbursed from the local treasury.

- The General Fund, shall consist of monies and resources not otherwise accruing to any other fund and shall be

available for the payment of expenditures, obligations or purposes not specially declared by law as chargeable to, or payable from, any other fund, through transfers of monies or resources therefrom to other funds of the local government for their augmentation and use may be made by proper appropriation.

- The Infrastructure Fund, shall consist of monies and resources raised or earmarked by law, including those which under existing laws accrue to the road and bridge fund, allotments under Republic Act No. 917, as amended, and transfers from the General Fund, which shall be available exclusively for the following purposes:

- The repair, maintenance, improvement, and construction of roads, bridges, and highways. However, in applying this fund to such uses, adequate provision shall be made for the maintenance of existing unabandoned roads and bridges before any new construction is undertaken.

- The providing and maintaining of wharves, piers, and docks, in accordance with plans and specifications furnished by the proper national office, and for removing obstructions to navigation.

- Subsidizing or for acquiring, operating, and maintaining means of water transportation within the province or city or between the province or city and neighboring provinces and city or islands or to dredge rivers and provide facilities for communication and transportation by river, as well as for establishing and operating telephone systems.

- The construction, improvement, maintenance and repair of wharves, piers and docks; plazas, parks, monuments and playgrounds; street lighting; artesian wells; irrigation system; flood control systems; sewerage and drainage systems; and other permanent public improvements.

- The acquisition of lands and buildings for public use.

Construction of roads and bridges shall include preliminary investigation and surveys besides actual construction.

Subject to the approval of the Secretary of Finance, the local board or council may, upon proper justification, transfer any unappropriated balance of this fund to cover exceptionally urgent needs of the province, city, or municipality.

SEC. 8. Special Education Fund.—There shall be maintained in the local treasuries a separate fund to be known as the Special Education Fund which shall consist of the respective shares of provinces, cities and municipalities in the proceeds of the additional one per cent real property tax levied and appropriated for educational purposes under Republic Act No. 5447, as amended by Sections 41 and 87 (b) of Presidential Decree No. 464, otherwise known as the Real Property Tax Code.

SEC. 9. Trust Funds.—Trust funds are private and public monies which have officially come into the possession of the Government or of a government officer as trustee, agent, or administrator, or which have been received as a guaranty for the fulfillment of some obligation. A trust fund is available only for the specific purpose for which it was created or for which it came into the possession of the Government.

SEC. 10. Separation of Books and Depository Accounts.— Local treasurers shall maintain separate books and depository accounts for each fund in their custody or administration under such rules and regulations as the Commission on Audit may prescribe.

SEC. 11. Depository Accounts.—Local treasurers shall maintain their depository accounts with Banks duly designated as government depositories by the Central Bank of the Philippines.

Municipal treasurers shall deposit their funds with the provincial treasurer who, in turn, shall deposit the same with the duly designated banks. Provincial, city and municipal treasurers may directly deposit with duly

designated banks excess local funds under time deposit accounts, upon resolution of the local legislative body and upon approval by the provincial treasurer and the provincial auditor, in the case of municipal funds.

Earnings of such deposits shall accrue to the proper funds.

SEC. 12. Separation of Personal Money from Public Funds.—Local treasurers and other accountable officers shall keep personal monies separate and distinct from government funds in their custody and shall not make profit out of public money or otherwise apply the same to any use not authorized by law.

ARTICLE II. Special Accounts

SEC. 13. Special Accounts to be Maintained in the General Fund.—There shall be maintained in the general fund of the local government concerned special accounts for the following:

- Public utilities and other economic enterprises.

- Barrio Development Fund.—There is hereby created a barrio development fund to be constituted from the annual contribution from each province, city, or municipality in amounts not exceeding five hundred pesos per barrio. This fund shall be spent solely for community development projects which meet the requirements set forth by the Secretary of Local Government and Community Development.

The provincial or city treasurer, who shall be the custodian of this fund, shall maintain in his books a special account therefor. The provincial treasurer shall make releases from this fund thru the municipal treasurer concerned who shall be responsible for the proper disbursement and accounting of the same.

- Loans, interests, bond issues and other contributions for specific purposes.

Receipts and expenditures involving the above-mentioned special accounts shall be properly taken up thereunder.

Not profits derived from the operation of public utilities and other economic enterprises, when not needed for the return of the advances made therefor, shall be spent solely for the improvement of the public utility or the economic enterprises concerned.

CHAPTER III. BUDGETING

ARTICLE I. Provincial, City and Municipal Budgets

SEC. 14. Definition of Terms.—When used in this Chapter:

- The term "annual budget" means a financial plan embodying the estimates of income certified as reasonably collectible by the provincial treasurer in the case of provinces and their respective municipalities and by the city treasurer in the case of cities, and appropriations covering the proposed expenditures for the ensuing fiscal year.

- The term "supplemental budget" is a supplementary financial plan embodying changes during the fiscal year in the annual estimates of income and appropriations.

- The term "income" covers all revenues and receipts collected or received, forming the gross accretions of funds of the Government.

- The term "revenue" refers to income derived from the regular system of taxation enforced under authority of law or ordinance, and, as such, accrue more or less regularly every year.

- The term "receipts" refers to income realized from operations and activities of the Government or are received by the Government in the exercise of its corporate functions, consisting of charges for services rendered, or for

conveniences furnished, or the price of a commodity sold as well as authorized contributions or aids from other entities, except provisional advances for budgetary purposes. Loans for specific projects or activities shall be considered as "receipts".

- The term "appropriations" refers to the estimates of expenditures in a budget when finally approved by the appropriate authorities concerned.

- The term "continuing appropriations" refers to appropriations for specific projects, such as those for construction of physical structures, or for the acquisition of real property or equipment, which shall continue to be available until the project is completed or abandoned. Reversions shall not be made or appropriations obligated by contract. Appropriations not obligated by contract may not be continued if the same would result in a negative balance in the unappropriated account of the fund concerned.

- The term "current operating expenditures" refers to "appropriations for the purchase of goods and services for current consumption within the fiscal year, including the acquisition of furniture and equipment of nominal value usually used in the conduct of normal government operations.

- The term "capital outlays" or "capital expenditures" refers to the purchase of goods and services of a life-expectancy extending beyond the fiscal year and which add to the assets of the local government concerned, except furniture and equipment of nominal value usually used in the conduct of normal government operations.

- The term "budget document" refers to the instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body.

SEC. 15. Form and Content.—The provincial, city and municipal budget shall primarily consist of two parts: (1) the estimates of income certified collectible by the treasurer concerned; and (2) the total appropriations covering (a) the current operating expenditures; and (b) capital outlays.

The budget document shall contain:

- a budgetary message of the local chief executive setting forth in brief the significance of the appropriations proposed;

- a brief summary of the functions and activities in relation to the goals and objectives of the local government for the fiscal period; and

- summary financial statements setting forth:

- the actual income and expenditures during the last completed year;

- the actual income and expenditures of the first three quarters and the estimated income and expenditures for the fourth quarter of the fiscal year in progress;

- the estimated income for the ensuing fiscal year from ordinances and laws existing at the time the proposed budget is transmitted, together with other revenue-raising proposals, if any;

- the estimated expenditures necessary to carry out the functions and activities of the local government for the ensuing fiscal year;

- all essential facts regarding the bonded and other long-term obligations and indebtedness of the local government, of any;

- summary statement of all statutory and contractual obligations due; and

- such other financial statements and data as are deemed necessary or desirable in order to make known in all practicable detail the financial condition of the local government.

SEC. 16. Submission of Detailed Statements of Income and Expenditures.—On or before the fifteenth day of April of each year, the local treasurers shall submit to their respective local chief executives a certified statement covering the income and expenditures pertaining to the preceding fiscal year; the actual income and expenditures of the first three quarters and the estimated income and expenditures for the fourth quarter of the current year; and the estimates of income for the ensuing fiscal year. The local treasurer shall also certify to the reasonable probability of realizing the estimates of income for the ensuing fiscal year.

SEC. 17. Submission of Budget Proposals by Heads of Offices.—Each head of office shall submit a statement of the proposed expenditures recommended by him for his office to the local chief executive on or before the date the said local chief executive may determine, but not later than April fifteen of each year and in accordance with such policy guidelines as the latter may issue in conformity with the general requirements of this Chapter.

Budget proposals for all offices, departments, or projects, shall be divided into two primary categories, namely—the current operating expenditures and the capital outlays. Such budget proposals shall be supported by:

- Personnel schedules containing the following information:
- A detailed plantilla of personnel indicating position titles, names of incumbents, and present and proposed rates of salaries and wages, excluding those hired on the daily basis;
- Proposed new positions and corresponding salary rates; and
- Positions proposed for abolition and the aggregate amount involved.
- Brief narrative description of the nature of the work to be performed and explanation of the significance and scope of each program.

SEC. 18. Preparation of the budget by the local chief executive.—Upon receipt of the statements of income and expenditures from the treasurer and the budget proposals of the head of offices as provided for in the preceding sections, the local chief executives shall prepare the budget for the ensuing fiscal year in accordance with Section 15 hereof.

The local chief executive shall submit the budget to the local board or council not later than May sixteen of the year.

SEC. 19. Legislative authorization of the budget.—On or before the end of the fiscal year, the local board or council shall approve through the enactment of an appropriation ordinance the annual budgets for each fund of the local government unit for the ensuing fiscal year on the basis of the statement unit of the certified estimated income and budget proposals submitted by the local chief executive. In the case of cities, the budgets thus enacted by the local board or council shall be subject to further approval by the City Mayor.

SEC. 20. Majority vote required in the approval of budgets.—Approval by the board or council of the budgets of the local government shall require the affirmative votes of a majority of all the members thereof.

SEC. 21. Veto power of the city mayor.—Within ten days after receipt of the appropriation ordinance, or any resolution or motion directing the payment of money or creating liability, the city mayor shall return it with his approval or veto. If he takes no action within the time prescribed, it shall be deemed to have been approved.

If he returns it with his veto, his reasons therefor must be stated in writing. The ordinance, resolution, or motion may then be re-enacted by the affirmative votes of at least two-thirds of all the members of the board or council,

in which case the same shall again be forwarded to the city mayor for his approval. If within ten days after receipt of the re-enacted ordinance, resolution, or motion, the city mayor takes no action, it shall be deemed to have been approved, but if within said time the city mayor again returns it with his veto, stating writing his reasons therefor, the ordinance, resolution, or motion, if re-enacted by a two-thirds vote, shall be forwarded forthwith by the board or council to the Secretary of Finance for his approval or disapproval within thirty days after receipt thereof. The decision of the Secretary shall be final.

SEC. 22. Sealing, recording and distribution of appropriation ordinances.—Each approved ordinance, resolution or motion hereinabove referred to shall bear the official seal of the local government concerned, signed by the presiding officer of the board or council and attested to by the board or council secretary, and recorded in a book kept for the purpose. It shall be the duty of the board or council secretary to furnish the local treasurer concerned with a least three copies of the approved appropriation ordinance within ten days from the approval thereof. In the case of provinces and cities, the local auditor shall likewise be furnished with copies thereof.

SEC. 23. Effectivity of budgets.—The approved annual budget shall be deemed to be operative and in full force and effect as of the beginning of the fiscal year. A supplemental budget, however, shall take effect upon its approval or on the date fixed in the appropriation ordinance for its effectivity.

SEC. 24. The role of the treasurer in the budget process.— The provincial, city and municipal treasurer shall be the chief financial officer of their respective local governments and in such capacity shall provide technical and staff services to the chief executive and other local officials in budget preparation, authorization, execution and accountability.

SEC. 25. Changes in the annual budget.—Changes in the annual budget may be made within the fiscal year by way of supplemental budgets which shall be enacted in the same manner as the annual budget but not oftener than once a month. Additional supplemental budgets, however, may in times of emergency be enacted in the manner herein provided to set aside appropriations for the purchase of supplies and materials and/or the payment of services which are exceptionally urgent or absolutely indispensable to prevent imminent danger to, or loss of, life or property.

Whenever any change is made in the budget, the supplemental appropriation ordinance shall clearly indicate the various items of appropriations affected and the reasons for the change.

SEC. 26. Failure to enact an annual budget.—If the local legislative body shall fail to pass the annual budget before the beginning of the ensuing fiscal year, or when the budget which has been enacted is declared inoperative in its entirety by the reviewing officer, the annual appropriations for salaries and wages of existing positions, statutory and contractual obligations, and essential operating expenses authorized in the annual and supplemental budgets for the preceding fiscal year shall be deemed re-enacted and disbursements of funds shall be in accordance therewith until a new budget or a revised budget meeting the objections of the reviewing officer is approved.

In the implementation of a re-enacted budget, the local treasurer concerned shall exclude from the estimates of income for the preceding fiscal year those realized from non-recurring sources, like national aids, proceeds from loans, sale of assets, prior year adjustments, and other analogous sources of income.

Should the revised income estimates be less than the aggregate re-enacted appropriations, the treasurer shall accordingly advise the local board or council which shall, within ten days from receipt of such advice, make the necessary adjustments or reductions. The revised appropriations authorized by the board or council shall then be the basis for disbursements.

SEC. 27. Budgetary Requirements.—The budgets of provinces, cities and municipalities for any fiscal year shall

comply with the following requirements:

- The aggregate amount appropriated shall not exceed the estimated income certified collectible by the local treasurer;
- Full provisions shall be made for all statutory and contractual obligations of the local government concerned;
- Twenty per cent of the national internal revenue allotment accruing to the general fund of the local government shall be appropriated for developmental projects or activities;
- Aids to legally constituted barrios shall be provided in amounts not exceeding P500.00 per barrio; and
- Two per cent of the estimated revenue from regular sources, shall be set up as a yearly unappropriated reserve to cover unforeseen expenditures arising from the occurrence of natural calamities or financial dislocation on account thereof.

SEC. 28. General limitations.—

- The total annual appropriations for salaries and wages of provincial, city and municipal officials and employee for one fiscal year shall not exceed forty-five per cent (45%), in the case of all first and second class provinces, cities and municipalities and fifty-five per cent (55%), in the case of those lower than second class, of the total annual income actually realized from regular sources during the next preceding fiscal year or the current fiscal year estimates from the same sources certified as collectible by the provincial or city treasurer concerned, whichever is lower. The appropriations for salaries and wages of officials and employees in the public schools, hospitals, health and agricultural services, public utilities, markets and slaughter-houses, and other economic enterprises owned, operated and maintained by the province, city or municipality, as well as representation and emergency cost-of-living allowances, shall not be included in the computation of the maximum amount expendable for salaries and wages.

The Secretary of Finance, however, may authorize appropriations in excess of the percentages hereinabove fixed subject to such conditions as he may impose, but in no case shall the excess in appropriations for salaries and wages be more than twenty-five per cent (25%) of the maximum expendable amounts nor shall such exemption be granted in case of overdraft or imminence thereof.

- No official or employee shall receive a salary rate higher than the maximum fixed by law or regulation for his position or other positions of equivalent rank.
- No local fund shall be appropriated to increase or adjust salaries or wages of officials and employees of the national government assigned in the local government, except as may hereafter be expressly authorized by law.
- In case a reduction of salaries and wages becomes necessary, such reduction shall be general in character and the percentage thereof shall be uniform for similar rates of salaries and wages. In cases of abolition of positions in the competitive or career service, such abolition shall be made in accordance with pertinent provisions of the Civil Service Law and Rules, and in the case of officials or employees appointed at the national level such reduction in that portion of their salary paid out of local funds as authorized by law or abolition of position shall not be given effect unless approved by the Head of the National Department or Commission concerned.
- Non-funding of existing positions in the competitive or non-competitive services which are occupied by incumbents holding permanent appointments shall be unlawful.
- Changes in designation or nomenclature of positions resulting in a promotion or demotion in rank and/or increase or decrease in compensation shall not be authorized, except when the position is actually vacant, and the

filling of such positions shall be strictly made in accordance with the Civil Service Law and Rules.

- Except as may be expressly authorized by law, creation of new positions and salary increases or adjustments shall not be retroactive but, rather, invariably prospective in effect.

- The annual appropriations for discretionary purposes of the local chief executive shall not exceed one per cent of the real property tax collections actually realized during the next preceding fiscal year or P100,000.00, whichever amount is lower.

SEC. 29. Review of Provincial and City Budgets.—Within ten days from receipt by the provincial or city treasurer of copies of the provincial or city budget approved by the local board or council, he shall furnish copies thereof to the Secretary of Finance who shall have the power to review the same in order to ascertain compliance with the foregoing requirements and general limitations. If within ninety days after receipt of his copies of the provincial or city budgets, the Secretary of Finance takes no action thereon, the same shall be deemed to have been passed in accordance with law and shall continue to be in full force and effect. If within the same period the Secretary of Finance shall have ascertained that a provincial or city budget has not complied with the budgetary requirements set forth in Section 27 hereof, the budget shall be declared inoperative in its entirety. Items of appropriations contrary to, or in excess of, any of the general limitations prescribed in Section 28 hereof shall be disallowed or reduced accordingly and any violation of any of the aforesaid general limitations shall constitute sufficient ground for declaring the budget inoperative either in part or in its entirety.

The Secretary of Finance shall, within the ninety-day period hereinabove fixed, advise the provincial governor or the city mayor concerned thru the local treasurer or any action taken on the budget under review. Following receipt of such advice, it shall be unlawful for the local treasurer to make further disbursement of funds from any of the items of appropriation declared inoperative, disallowed or reduced.

SEC. 30. Review of Municipal Budgets.—Municipal budgets shall be reviewed by the provincial treasurer in the same manner and within the same period as prescribed in the preceding section. The budgetary requirements and general limitations prescribed for provincial and city budgets shall likewise be applicable to municipal budgets.

If within ninety days from receipt of his copies of the municipal budget from the municipal treasurer concerned, the provincial treasurer takes no action thereon, the same shall be deemed to have been passed in accordance with law and shall continue to be in full force and effect. If within the ninety days the provincial treasurer shall have ascertained that a municipal budget has not complied with the budgetary requirements set forth in Section 27 hereof or when the income estimates certified by the municipal treasurer are found to be unrealistic and improbable of collection, the provincial treasurer shall, within the ninety-day period hereinabove fixed declare the budget inoperative in its entirety. Items of appropriation contrary to, or in excess of, any of the general limitations prescribed in Section 28 hereof shall be disallowed or reduced accordingly and any other violation of any of the aforesaid general limitations shall constitute sufficient ground for declaring the budget inoperative either in part or in its entirety.

The provincial treasurer shall within the ninety-day period advise the municipal mayor thru the municipal treasurer of any action taken on the budget under review. Following receipt of such advice, it shall be unlawful for the municipal treasurer to make further disbursement of funds from any of the items of appropriation declared inoperative, disallowed, or reduced.

SEC. 31. Duration of appropriations; closing special budgets.—Appropriations for ordinary administrative purposes shall terminate with the fiscal year and all unexpended balances thereof shall be reverted on the thirtieth day of June of each year to the unappropriated account by way of a special budget which shall serve as a

supporting document to the corresponding journal voucher. Similarly, thru the special budget, all income accounts shall be brought into balance before closing the books, reducing the classes of income that have been over-estimated and increasing those that have been underestimated to the amounts actually realized.

Such special budgets reverting unexpended appropriations for ordinary administrative purposes and of income receivable and actual income adjustments shall not require any action by the local legislative body. However, legislative action by the local board or council is necessary in the following cases: (1) where overdrafts in any of the appropriation accounts have been incurred; and (2) reversions of continuing appropriation or appropriations obligated by the contract as may be authorized by law.

SEC. 32. The annual barrio budget.—The annual barrio budget shall primarily consist of two parts: (a) the estimates of income certified collectible by the municipal treasurer on the basis of estimates prepared by the barrio treasurer from local sources; and (2) the total appropriations covering current operating expenditures and capital outlays, if any.

SEC. 33. Submission of detailed statements of income and expenditures for the barrio budget.—On or before the fifteenth day of April of each year, the municipal treasurer shall furnish the barrio captain with a certified statement covering the estimates of income from local sources and expenditures pertaining to the ensuing fiscal year and thereby certify to the reasonable probability or realizing the estimates of income prepared and submitted by the barrio treasurer.

SEC. 34. Preparation of the barrio budget the barrio captain.—Upon receipt of the foregoing statements, the barrio captain shall prepare the budget for the ensuing fiscal year. The said budget shall contain the estimate of income as certified by the municipal treasurer and the proposed expenditures for the ensuing fiscal year.

The barrio captain shall submit the budget to the barrio council not later than May sixteen of the year.

SEC. 35. Action of the barrio council.—On or before the end of the fiscal year, the barrio council may enact through an appropriation ordinance the annual barrio budget for the local fund for the ensuing fiscal year on the basis of the statement of the certified estimated income and budget proposals submitted by the barrio captain.

SEC. 36. Effectivity of barrio budgets.—Any provision of law to the contrary notwithstanding, the barrio budget approved by the barrio council shall be deemed operative and in full force and effect at the beginning of the fiscal year. A barrio supplemental budget shall take effect upon its approval or on the date fixed in the appropriation ordinance for its effectivity.

SEC. 37. Changes in the barrio budget.—Changes in the budget in the case of appropriations for ordinary administrative purposes may be made within the fiscal year by way of supplemental budgets which shall be adopted in the same manner as the annual budget.

SEC. 38. Review of the barrio budget.—Within ten days from its approval, copies of the barrio budget shall be submitted by the barrio council to the municipal treasurer concerned who shall have the power to review such budget in order to see to it that the aggregate amount appropriated has not exceeded the estimated income certified collectible; that full provisions have been made for all statutory and contractual obligations; that no officials or employee shall receive per diems, wages or salaries in excess of existing laws or executive orders. If within ninety days after receipt of his copies of the budget the municipal treasurer takes no action thereon, the same shall be deemed to have been passed in accordance with law and shall continue to be in full force and effect. If within the same period the municipal treasurer concerned shall have ascertained that a barrio budget has approved appropriations in excess of the estimates of income duly certified collectible or that the same has not fully provided for statutory or contractual obligations, the budget shall be declared inoperative in its entirety. Items of

appropriation in excess of existing salary laws and executive orders shall be disallowed or reduced accordingly. The municipal treasurer shall, within the ninety-day period hereinabove fixed, advise the barrio captain concerned, thru the barrio treasurer, of any action taken on the budget under review. Following receipt of such advice, it shall be unlawful for the barrio treasurer or the municipal treasurer who has custody of the funds to make further disbursement of funds from any of the items of appropriation declared inoperative, disallowed or reduced.

SEC. 39. Disbursement of appropriations for development projects.—Appropriations for development projects funded from the twenty per cent of the annual internal revenue allotment of the local government and from the barrio development fund shall not be disbursed until after the corresponding work programs shall have been reviewed by the Secretary of Local Government and Community Development or his duly authorized representative. The Secretary shall issue the guidelines necessary in the proper implementation of this Section.

SEC. 40. Administrative issuances; Budget operations manual.—The Secretary of Finance shall have rules and regulations as may be necessary to facilitate effective implementation of the provisions of this Chapter and shall within one year from the effectivity hereof, promulgate a Budget Operations Manual for local governments to improve and systematize methods, techniques and procedures employed in budget preparation, authorization, execution and accountability.

CHAPTER IV.—Expenditures, Disbursements Accounting and Accountability

SEC. 41. Disbursement of Local Government Funds in General.—Revenue funds shall not be paid out of any-local treasury except in pursuance of lawful appropriation or other specific statutory authority. Trust funds shall not be paid out of any local treasury except in fulfillment of the purpose for which the trust was created or fund received.

SEC. 42. Prohibition against expenditures for religious or private purposes.—No public money or property shall be appropriated or applied for the benefit of any religious sect or activity nor any other undertaking or purpose of a private character.

SEC. 43. Use of appropriated funds.—Funds shall be available exclusively for the specific purposes for which they have been appropriated. No transfers or reversions of appropriations from one item to another shall be made except by the local legislative body.

SEC. 44. Restriction upon limit of disbursements.—Disbursements in accordance with appropriations in the approved local budget may be made from any local funds in the custody of the treasurer but the total disbursements from any local fund shall in no case exceed the actual collections plus fifty per cent in the case of provinces and cities and twenty-five per cent in the case of municipalities, of the uncollected estimated revenue accruing to such fund: Provided, however, That no cash overdraft in any local fund shall be incurred at the end of fiscal year.

In case of emergency caused by typhoon, earthquake, or any other public calamity, the Secretary of Finance in the case of provinces and cities and the provincial treasurer in the case of municipalities, may authorize the treasurer to continue making disbursements from any local fund in his possession in excess of the limitation herein provided, but only for such purposes and amounts included in the approved local budgets as the said officials shall determine, after consultation with the local board or council.

Any overdraft which may incurred at the end of the year in any local fund by virtue of the provisions hereof shall be covered with the first collections of the following fiscal year accruing to such local fund.

SEC. 45. Prohibition against advance payments.—No money shall be paid on account of any contract for which no

services have as yet been rendered or no deliveries have as yet been made except with the prior approval of the President upon recommendation of the Secretary of Finance and the Commission on Audit.

SEC. 46. Cash Advances.—No cash advance shall be granted to any local official or employee, appointive or elective, unless in accordance with the rules and regulations as the Commission on Audit may prescribe.

SEC. 47. Persons accountable for government funds property.—Every officer of the local government whose duties permit or require the possession or custody of the government funds shall be accountable and responsible therefor and for the safekeeping thereof in conformity with the provisions of this law. Other officers who, though not accountable by the nature of their duties, may likewise be similarly held accountable and responsible for the government funds through their participation in the use or application thereof.

SEC. 48. Prohibition against pecuniary interest.—It shall be unlawful for any local treasurer or other accountable officer to have any pecuniary interest, direct or indirect, in any contract, work or other business of the local government unit of which he is the treasurer or accountable officer.

SEC. 49. Liability for acts done upon direction of superior officer, or upon participation of other department heads or officers of equivalent rank.—The local treasurer or other accountable officer shall not be relieved of liability for illegal or improper use or application or deposit of government funds or property by reason of his having acted upon the direction of a superior officer, elective or appointive, or upon participation of other department heads or officers of equivalent rank. The superior officer directing, or the other department head participating in such illegal or improper use or application or deposit of government funds or property, shall be jointly and severally liable with the local treasurer or other accountable officer for the sum or property so improperly used, applied or deposited.

SEC. 50. Prohibition against expenses for receptions and entertainment.—No money shall be appropriated, used or supplied for entertainment or receptions except to the extent of representation allowances authorized by law or executive order or for the reception of visiting dignitaries of foreign governments or foreign missions, or when expressly authorized by the President in specific cases.

SEC. 51. Certification on, and approval of, vouchers.—Monies shall not be disbursed unless the treasurer concerned certifies that appropriations and funds are available for the purpose. Vouchers and payrolls shall be certified to and approved by the head of the department or office who has administrative control of the fund concerned, as to validity, propriety and legality of the claim involved. In the case of municipalities, the approval of the local chief executive shall be required when local funds are involved.

In case of temporary absence or incapacity of the department head or chief of office, the officer next-in-rank shall automatically perform this function and he shall be fully responsible therefor.

SEC. 52. Officials authorized to draw checks in settlement of obligations.—Checks in settlement of obligations shall be drawn by the Provincial and City Treasurer, as the case may be, and shall be countersigned by the Provincial or City Auditor.

In case of temporary absence or incapacity of the above-named officials, these duties shall devolve upon the immediate assistant.

SEC. 53. Disbursement of local funds and statement of accounts.—Disbursements shall be made in accordance with the appropriations provided by the local legislative body without the necessity of further approval by said body. Within forty days after the close of each month, the local treasurer shall furnish the local legislative body with such financial statements as may be prescribed by the Commission on Audit. In case of the-year-end

statement of accounts, the period shall be sixty days.

SEC. 54. Rendition of accounts.—Local treasurers and other local accountable officers shall render their accounts within such time, in such form, style and contents and under such regulations as the Commission on Audit may prescribe.

Provincial and city auditors shall certify the balances arising in the accounts settled by them to the Chairman of the Commission on Audit and to the proper local treasurer and accountable officer. Similar certifications shall be prepared for other local officers who may be held jointly and severally liable for any loss or improper or unauthorized use or misappropriation of government funds or property.

SEC. 55. Auditorial visitation.—The books, accounts, papers and cash of any local treasurer or other accountable officer shall at all times be open to the inspection of the Commission on Audit or its duly authorized representative.

In case an examination of the accounts of a local treasurer discloses a shortage in cash which should be on hand, it shall be the duty of the examining officer to seize the office and its contents, notify the Commission on Audit and the local chief executive, and thereupon immediately take full possession of the office and its contents, close and render his accounts to the date of taking possession, and temporarily continue the public business of such office.

The Auditor who takes possession of the office of the local treasurer under this Section shall ipso facto supersede the local treasurer until the officer involved is restored or other provision has been lawfully made for filling the office.

SEC. 56. Accounting for revenues.—Estimated revenues which remain unrealized at the close of the fiscal year shall not be booked nor credited to the unappropriated surplus or any other account.

SEC. 57. Accounting for obligations.—All lawful expenditures and obligations incurred during a year shall be taken up in the accounts of that year.

SEC. 58. General liability for unlawful expenditures.— Expenditures of funds or use of property in violation of law shall be a personal liability of the official or employee responsible therefor.

SEC. 59. The official fiscal year.—The official fiscal year of local governments shall be the period beginning with the first day of July and ending with the thirtieth day of June of the following year.

CHAPTER V. ORGANIZATION FOR LOCAL FISCAL ADMINISTRATION

SEC. 60. Provincial or City Treasurers.—In each province or city, there shall be a distinct and separate office to be headed by a provincial or city treasurer, who shall be appointed by the President of the Philippines upon recommendation of the Secretary of Finance, in the manner provided herein. The provincial or city treasurer shall be the chief financial officer of the local government unit concerned and, as such, shall exercise the following functions:

- Advise the provincial board, the municipal board or city council, the provincial or city officers, and the national officers concerned with the disposition of the provincial or city funds, on all matters relative to public finance and the acquisition and disposition of property of the Government.
- Collect taxes throughout the province or city, including national, provincial or city, and municipal taxes and other revenues authorized by law.
- Have custody and supervision of all provincial or city funds and property, including the provincial or city

buildings and grounds and, subject to the approval of the provincial governor or city mayor, assign rooms to provincial or city officers and other public officials who by law are entitled to office space in the provincial or city buildings.

- Have charge of the disbursement of all provincial or city funds and other funds the custody of which may be entrusted to him by law or other competent authority.
- Exercise direct and immediate supervision, administration and control over public markets and the personnel thereof, including those whose duties concern the maintenance and upkeep of the market and market premises, in accordance with local ordinances and other pertinent rules and regulations. The provincial treasurer shall exercise general supervision over municipal public markets.
- Acquire for the provincial or city government all necessary supplies, materials, and equipment for which the proper appropriation has been authorized by the provincial board, municipal board or city council or other competent authority.
- Upon designation by the Secretary of Finance, act as Treasury Fiscal Examiner in the province or city under the administrative authority of the Treasurer of the Philippines and in accordance with the pertinent rules and regulations.
- Act, with the approval of the Secretary of Finance, as agent of the Philippine National Bank in case the same has established an agency in the province or city, with such powers and duties and subject to such conditions as the Board of Directors of the Philippine National Bank may confer and impose upon him.
- Inspect, under the authority of the provincial board, municipal board or city council, the operation of public utilities belonging to, leased or operated by, the provincial or city government or other local governments, such as telegraph and telephone, land and water transportation, waterworks, electric-light plants, irrigation systems, bonded warehouses, ferries, slaughterhouses, and other commercial and industrial enterprises of the province and the municipalities or of the city, and all private commercial and industrial establishments within the province or city in relation with local tax ordinances.

In case of vacancy in the office of the provincial or city-treasurer owing to illness, absence or other cause, the Secretary of Finance may designate another treasurer already in the service or any other competent person to act temporarily in said office and, upon affirmation of said designation by the President of the Philippines, such treasurer or person thus designated shall receive the compensation attached to the vacant position and to continue until such time that a regular or permanent appointment shall have been issued in accordance with law. The Secretary of Finance may, in his discretion, authorize the payment of per diems during the period of such designation.

SEC. 61. Qualifications.—No person may be appointed as provincial or city treasurer unless he is a citizen of the Philippines; of good moral character; a holder of a college degree (preferably in law, commerce or public administration) from a recognized school; a first grade civil service eligible or its equivalent; has been an assistant provincial or city treasurer for at least three years; and possesses such other qualifications or requirements that the Secretary of Finance may prescribe.

SEC. 62. Compensation and emoluments.—Provincial or city treasurers shall receive such compensation as fixed by law, and such other emoluments as may be authorized by law or executive order.

SEC. 63. Subprovincial treasurers.—There shall be in each subprovince a subprovincial treasurer who shall be appointed by the Provincial Treasurer in conformity with, the Civil Service Law and rules with the approval of the

Secretary of Finance. He shall receive compensation as fixed by law and shall perform duties and functions as may be assigned to him by the Provincial Treasurer in accordance with law and regulations.

SEC. 64. Assistant Provincial or City Treasurer.—In all offices of the provincial and city treasurers, there shall be an assistant provincial or city treasurer who shall be appointed by the provincial or city treasurer in conformity with the provisions of the Civil Service Law, subject to the approval of the Secretary of Finance.

In the highest class of provinces and cities as classified by the Department of Finance and in the Special cities of Manila and Quezon City, there may be created an additional position of assistant provincial or city treasurer which shall be filled in the manner provided herein.

SEC. 65. Qualifications and Functions.—No person may be appointed as assistant provincial or city treasurer unless he is a citizen of the Philippines; of good moral character; a holder of a college degree (preferably in law, commerce or public administration) from a recognized school; a first grade civil service eligible or its equivalent; has been at least two years as administrative deputy; and possesses such other qualifications or requirements that the Secretary of Finance may prescribe.

The assistant provincial or city treasurer shall assist the provincial or city treasurer and perform such other duties as the latter may assign to him. He shall have authority to administer oaths concerning notices and notifications to those delinquent in the payment of the real property tax and concerning official matters relating to the accounts of provincial or city treasurers or otherwise arising in the offices of the provincial or city treasurer and the provincial or city assessor.

SEC. 66. Compensation.—Assistant provincial or city treasurers shall receive such compensation as fixed by law.

SEC. 67. Administrative Deputy.—There shall likewise be in each provincial or city treasury an administrative deputy who, like the provincial or city treasurer and assistant treasurer, shall be a transient official and who shall be appointed by the local chief executive in conformity with the Civil Service Law and rules and subject to the approval of the Secretary of Finance.

SEC. 68. Qualifications and Functions.—No person may be appointed as administrative deputy unless he is a citizen of the Philippines; has finished at least two years of college education leading to a bachelor's degree preferably in law, commerce or public administration; has rendered at least five years of continuous service in the local treasury service; a first grade civil service eligible or its equivalent; and possesses such other qualifications or requirements that the Secretary of Finance may prescribe.

The functions of the Administrative Deputy shall be as follows:

- Maintain personnel discipline in the office and undertake administrative investigations filed against erring provincial and municipal or city treasury personnel.
- Coordinate the functions and internal activities of the various divisions in the provincial or city treasury in relation to the municipal treasurers in the case of provinces and deputies in the case of cities.
- Discharge the duties of the assistant provincial or city treasurer during the temporary absence of the assistant.
- Perform other duties which may be assigned to him from time to time by the provincial or city treasurer.

SEC. 69. Compensation.—The compensation of the Administrative Deputy shall be as fixed by law or executive order.

SEC. 70. Municipal or Municipal District Treasurer.—In each municipality or municipal district, there shall be a separate and distinct office to be headed by a municipal or municipal district treasurer, who shall be appointed by

the Provincial Treasurer in accordance with the Civil Service Law subject to the approval of the Secretary of Finance. The municipal or municipal district treasurer shall be the financial officer of the municipality or municipal district and, with respect to the collection of revenue, shall be the deputy of the provincial treasurer.

The principal duties of the municipal or municipal district treasurer shall be:

- Collect and receive all moneys due or accruing to the municipality or municipal district and, except as otherwise specifically provided, all other government revenue collectible therein.
- Requisition, upon application by the head of a department or office of the municipality or municipal district, all necessary supplies, materials and equipment for which the proper appropriation has been authorized by the local legislative body or other competent authority.
- Inspect, under the authority of the local legislative body, the operation of public utilities belonging to, leased or operated by, the municipality or municipal district such as telegraph and telephone, land and water transportation, waterworks, electric light plants irrigation systems, bonded warehouses, ferries, slaughterhouses, and other commercial and industrial enterprises belonging to the municipality or municipal district, and all private commercial and industrial establishments within the municipality or municipal district in relation with local tax ordinances.
- Exercise direct and immediate supervision, administration and control over public markets and the personnel thereof, including those whose duties concern the maintenance and upkeep of the market and market premises in accordance with local ordinances and other pertinent rules and regulations.
- Keep a detailed account of all moneys received and pay or dispose of the same pursuant to lawful authority.
- Keep a complete record of all property pertaining to every fund, local or otherwise, and render accounts for the same.
- Perform, as deputy of the provincial treasurer in the municipality or municipal district, such other duties not inconsistent with law as the provincial treasurer may assign to him.

SEC. 71. Qualifications.—No person may be appointed as municipal or municipal district treasurer unless he is a citizen of the Philippines; has completed at least two years of college education in a recognized school leading to a bachelor's degree; has rendered at least five years of continuous service in the local treasury service; holds an appropriate civil service eligibility; and possesses such other qualifications or requirements that the Secretary of Finance may prescribe.

SEC. 72. Compensation.—Each municipal or municipal district treasurer shall receive such compensation as fixed by law.

SEC. 73. Treasury and auditorial visitations.—The cash and accounts of the municipal or municipal district treasurers shall at all times be open to the inspection of the provincial treasurer or his deputy specifically authorized for that purpose, and of the provincial auditor or his representative at least once in every quarter without prejudice to the regular audit of all financial transactions thereof.

SEC. 74. Assistant Municipal or Municipal District Treasurer.—In the office of the municipal or municipal district treasurer, there shall be an assistant municipal or municipal district treasurer who shall be appointed by the provincial treasurer with the approval of the Secretary of Finance in conformity with the provisions of the Civil Service Law.

SEC. 75. Qualifications and Functions.—No person shall be appointed assistant municipal or municipal district

treasurer unless he is a citizen of the Philippines; has completed at least two years of college education in a recognized school leading to a bachelor's degree; has rendered at least three years of continuous service in the local treasury service; holds an appropriate civil service eligibility; and possesses such other qualifications or requirements that the Secretary of Finance may prescribe.

The assistant municipal or municipal district treasurer shall assist the municipal or municipal district treasurer and perform such other duties as the latter may assign to him.

SEC. 76. Compensation.—Each assistant municipal or municipal district treasurer shall receive such compensation as fixed by law or executive order.

SEC. 77. Temporary succession to office.—In the absence, suspension or other disability of the municipal or municipal district treasurer, the provincial treasurer shall designate an office-in-charge from the ranks of regular treasurer or assistant treasurers who shall temporarily discharge the duties of the office. He may also designate as officer-in-charge of a municipal treasury any competent person in his office permanently appointed to a position equivalent in rank to an assistant municipal treasurer.

SEC. 78. Appointment of treasury personnel in provinces, cities, municipalities and municipal districts.—The local chief executive shall appoint all other local treasury personnel whose appointments are not otherwise provided for in this Decree, the number and salaries of whom shall be determined by the local board or council, in accordance with existing salary laws, rules and regulations.

SEC. 79. Local treasury career service.—All local treasurers, their respective assistants, and other subordinates shall comprise the Local Treasury Career Service for which the Department of Finance shall conduct in-service training programs or seminars as may be deemed necessary in improving the technical and administrative skills essential to the conduct and management of the financial affairs and operations of the local governments. For this purpose, the Secretary of Finance may coordinate with, other national departments or agencies and academic institutions and may designate local treasury officials to act as trainers or instructors. Completion of an approved seminar or training program shall be considered a factor in the matter of promotions in the local treasury career service.

The Secretary of Finance may, in coordination with the Civil Service Commission, conduct entrance examinations for qualified applicants who may desire to enter the local treasury career service and qualifying examinations for purposes of promotion of those already in the service.

CHAPTER VI. FINAL PROVISIONS

SEC. 80. Implementing rules and regulations.—The Secretary of Finance shall promulgate the rules and regulations to be followed in carrying out the provisions of this Decree for the proper and effective implementation hereof.

The Chairman of the Commission on Audit shall prescribe the accounting and auditing rules and regulations necessary in the proper implementation of the pertinent provisions of this Decree.

SEC. 81. Transitory provisions.—The local governments shall have one year from the date of effectivity of this Decree to change the form of their annual and supplemental budgets from the line-item type to the form and contents provided for in Section 16, Article I, of Chapter III of this Decree and to establish the Infrastructure Fund created under Section 7, Article I, of Chapter II hereof. Upon the establishment of the Infrastructure Fund herein provided, the road and bridge funds of provinces, cities and municipalities and the permanent public improvement funds of municipalities shall be deemed ipso facto abolished, and all assets, resources, liabilities, surplus and

deficits of the funds herein abolished are hereby automatically transferred to the Infrastructure Fund.

An incumbent provincial, city or municipal treasurer, assistant treasurer, or administrative deputy who does not possess the educational requirements herein provided may be promoted to the next higher position or higher class of province, city or municipality, as the case may be:

Provided, however, That he has the necessary experience that may be substituted for every year he lacks in college education and for such other qualifications as may be prescribed by the Secretary of Finance: And provided, further, That five years after the effectivity of this Decree, no person shall be appointed Provincial or City Treasurer, Assistant Provincial or City Treasurer, Administrative Deputy, Municipal Treasurer, or Assistant Municipal Treasurer unless he possesses the educational qualifications prescribed under this Decree.

Nothing herein shall be construed as depriving any provincial, city or municipal treasurer, or assistant treasurer, or administrative deputy of his right to continue to hold office or withdrawing or reducing his benefits and privileges as provided for under existing laws.

SEC. 82. Separability clause.—If, for any reason, any section, or provision of this Decree shall be held to be unconstitutional or invalid, no other section or provision hereof shall be affected thereby.

SEC. 83. Repealing clause.—All laws, acts, decrees, executive orders, proclamations and/or administrative regulations, or part or parts thereof, including the pertinent portions of city charters which are contrary to, or inconsistent with, the provisions of this Decree are hereby repealed and/or modified accordingly.

SEC. 84. Effectivity.—This Decree shall take effect upon approval.

Done in the City of Manila, this 3rd day of June, in the year of Our Lord, nineteen hundred and seventy-four.

(Sgd.)

FERDINAND E. MARCOS

President of the Philippines

By the President:

(Sgd.)

ALEJANDRO MELCHOR

Executive Secretary

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